National Energy Board | Office national de l'énergie

National Energy Board

Departmental Performance Report

For the period ending March 31, 2007

Gaétan Caron
Chairman
National Energy Board

The Honourable Gary Lunn, P.C., M.P.
Minister
Natural Resources

Canada

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Section I : Overview

1.1 Chairman's Message

It is with pleasure that I present the National Energy Board's (NEB or Board) *Departmental Performance Report* for the period ending March 31, 2007.

The NEB's vision is to be an active, effective and knowledgeable partner in the responsible development of Canada's energy sector for the benefit of Canadians. The NEB's purpose is to promote safety and security, environmental protection and economic efficiency in the Canadian public interest within the mandate set by Parliament in the regulation of pipelines, energy development and trade. The Board's main responsibilities are the regulation of interprovincial and international gas, oil and commodity pipelines, international electric power lines and energy exports. In addition, we monitor and report to the government, business and the public on the functioning of energy markets. The NEB also regulates the safety, environmental and conservation aspects of energy exploration and development on federal lands in the North and offshore areas where there are no specific accords or agreements with a province or territory.

To set the context, approximately $110 billion of natural gas, natural gas liquids, crude oil, petroleum products and electricity were transported by NEB-regulated pipelines and power lines to Canadian energy users and markets outside of Canada in 2006. The cost of providing transportation services for these commodities was estimated to be around $4.7 billion in 2006, not including fuel costs paid by shippers on natural gas pipelines. This remarkable feat was accomplished by infrastructure that is mostly invisible to consumers and that operates with an extremely low rate of failure and minimal environmental impact. The Board's role as a regulatory agency is to help create a framework that allows these economic activities to proceed in an efficient manner when they are in the public interest.

The Board follows a strategic planning process that establishes priorities to enable us to meet our mandate. In the current environment of increasing global energy demand for safe and secure supplies of energy and high energy prices, the NEB's role as Canada's national energy regulator is as important as ever. At the same time, we are challenged to maintain a skilled and knowledgeable workforce in a competitive employment market. The Board identified three priority areas to address these challenges in 2006-2007: improving the regulatory framework, informing the energy policy debate, and enhancing NEB capacity and culture. I am proud to say that we were able to address many aspects of these challenges due to the significant efforts and dedication of our staff and the members of our Board.

We followed an ambitious improvement agenda in 2006-2007. Highlights of activities designed to improve the regulatory process include introducing internal quality systems improvements such as an integrated compliance approach to managing project applications, construction, operations and maintenance. We were able to move forward significantly on a one window approach for applications involving a hearing by obtaining agreement from the Minister of Environment to use the *Canadian Environmental*

Assessment Act (CEA Act) substitution process on a pilot basis. The Minister approved the NEB hearing process as a substitute for a review panel process for the Brunswick Pipeline project application. This pilot enabled a timeframe that was significantly less than the majority of panel review projects and less than the joint panel reviews undertaken in the past. We made further progress in regulatory efficiency by streamlining the process for small pipeline applications and implementing an integrated risk-based approach to processing applications that resulted in reduced cycle times while maintaining the integrity of our review process.

We know that Canadians look to the NEB as a source of independent, reliable and timely energy information. This service which we provide to Canadians has become even more important in the current high-priced energy environment and with the increasing global energy demand for safe and secure supplies of energy. In 2006-2007 we enhanced our energy information program with published summer and winter outlooks, a popular energy pricing information website for consumers, and energy market assessments in key areas of supply and demand. We also engaged Canadians across the country in the development of our next Energy Futures report, to be published in the fall of 2007.

The foundation of all of these contributions to the regulation of energy markets and transportation in the Canadian public interest is our people. To support our current staff complement and to attract qualified individuals, we have been moving forward on our third priority, to enhance NEB capacity and culture. We have worked with Treasury Board to implement a unique market based allowance system and pay for performance. The pay for performance system is built on a balanced scorecard framework which includes high level metrics based on our Goals: the impact on the external world; major improvement initiatives – preparing for the future; and service standards – measuring the efficiency of our performance.

In a year with a high hearing workload, we continued to deliver high quality work. Our information technology services and human resources services were reliably delivered; our translation, document production, records, and mail were all handled smoothly and efficiently; all Board meetings, public hearings and external meetings with stakeholders in both official languages were well coordinated; and a high standard for legal advice was provided.

Canada is fortunate to have such an abundance of energy resources and since it was formed, the Board has taken pride in providing efficient and effective regulation that enables Canadians to benefit from these resources. Energy and energy issues will receive greater exposure during the next planning period and I am confident that the Board with its committed team of professionals is up to the challenge of ensuring that Canada's endowment of energy resources continues to benefit all Canadians in a responsible and sustainable manner.

Gaétan Caron

Management Representation Statement

I submit for tabling in Parliament, the 2006-2007 *Departmental Performance Report* for the National Energy Board.

This document has been prepared based on the reporting principles contained in the *Guide for the Preparation of Part III of the 2006-2007 Estimates: Reports on Plans and Priorities* and *Departmental Performance Reports*:

- It adheres to the specific reporting requirements outlined in the *Treasury Board Secretariat* guidance.
- It is based on the department's approved Strategic Outcome(s) and Program Activity Architecture that were approved by the Treasury Board.
- It presents consistent, comprehensive, balanced and reliable information.
- It provides a basis of accountability for the results achieved with the resources and authorities entrusted to it.
- It reports finances based on approved numbers from the *Estimates and the Public Accounts of Canada*.

Name: _____
Gaétan Caron

Title: Chairman

Date: _____

1.2 Summary Information

1.2.1 Purpose

The National Energy Board's purpose is to promote safety and security, environmental protection and economic efficiency in the Canadian public interest[1] within the mandate set by Parliament in the regulation of pipelines, energy development and trade.

1.2.2 Vision

The NEB is an active, effective and knowledgeable partner in the responsible development of Canada's energy sector for the benefit of Canadians.

1.2.3 Mandate and Regulatory Context

The NEB is an independent federal agency that regulates several aspects of Canada's energy industry. Its purpose is to promote safety and security, environmental protection and economic efficiency in the Canadian public interest within the mandate set by Parliament in the regulation of pipelines, energy development and trade. The main functions of the NEB include regulating the construction and operation of pipelines that cross international or provincial borders, as well as tolls and tariffs on these facilities. Another key role is to regulate international power lines and designated interprovincial power lines. The NEB also regulates natural gas imports and exports, oil, natural gas liquids (NGL) and electricity exports, and some oil and gas exploration on Frontier lands, particularly in Canada's North and certain offshore areas. Further, the NEB provides energy information by collecting and analyzing information about Canadian energy markets through regulatory processes and monitoring.

The main functions of the NEB are established in the *National Energy Board Act* (NEB Act). The Board has additional regulatory responsibilities under the *Canada Oil and Gas Operations Act* (COGO Act) and under certain provisions of the *Canada Petroleum Resources Act* (CPR Act) for oil and gas exploration and activities on Frontier lands not otherwise regulated under joint federal/provincial accords. In addition, Board inspectors are appointed Health and Safety officers by the Minister of Labour to administer Part II of the *Canada Labour Code* as it applies to facilities regulated by the Board.

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1 The public interest is inclusive of all Canadians and refers to a balance of economic, environmental, and social interests that changes as society's values and preferences evolve over time. As a regulator, the NEB must estimate the overall public good a project may create and its potential negative aspects, weigh its various impacts, and make a decision.

The NEB, established in 1959, is an independent agency guided by the principles of natural justice and procedural fairness. The NEB reports to Parliament through the Minister of Natural Resources. The Board's regulatory decisions and the reasons for them are issued as public documents.

The NEB is required to meet the requirements of the *Canadian Environmental Assessment Act* (CEA Act) and the *Mackenzie Valley Resource Management Act* where the Board's environmental responsibilities span three distinct phases: evaluating potential environmental effects of proposed projects; monitoring and enforcement of terms and conditions during and after construction; and monitoring and regulation of ongoing operations, including decommissioning and abandonment.

The Board's mandate also includes the provision of expert technical advice to the Canada-Newfoundland Offshore Petroleum Board, the Canada-Nova Scotia Offshore Petroleum Board, Natural Resources Canada (NRCan), and Indian and Northern Affairs Canada (INAC). The Board may, on its own initiative, hold inquiries and conduct studies on specific energy matters as well as prepare reports for Parliament, the federal government and the general public. The NEB Act requires that the Board keep under review matters relating to all aspects of energy supply, production, development and trade that fall within the jurisdiction of the federal government. In addition, the Board provides advice and carries out studies and provides reports at the request of the Minister of Natural Resources.

Additional information on the background and operations of the NEB may be found at the Board's Internet site: http://www.neb-one.gc.ca.

1.2.4 Operating Context

The environment in which the NEB operated in 2006-2007 brought challenges and risks that influenced how it carried out its responsibilities and delivered results to Canadians. A number of important elements are described below.

Energy Overview

World energy prices continued to be high and volatile in 2006. Crude oil prices reached US$78.40 per barrel in July during intra-day trading and averaged US$66 for the year. Natural gas prices moved in the opposite direction, driven by above average levels of natural gas in storage and a lack of the hurricane-related disruptions which occurred in 2005. Prices in September fell to C$3.44/GJ, the lowest since 2002. Natural gas prices subsequently rebounded, closing the year at C$5.74/GJ. Energy prices are, in general, expected to remain at historically high levels.

The effect of high and volatile energy prices has led to an accelerated search for new sources of energy supplies from unconventional sources such as crude oil from the oil sands and wind-generated electricity projects. Electricity jurisdictions across Canada continue to focus on adequacy of supply and operating reliability. In this regard, the trend has been to continue to develop generation sources such as fossil-fuelled

generation, nuclear power and hydro electricity, but also to move beyond conventional sources.

As these various energy projects are brought on stream, transmission systems must be modified to integrate them into the existing infrastructure. In particular, new oil pipelines need to be constructed. Through 2006-2007, much of the Board's work involved addressing oil pipeline constraints and responding to the energy infrastructure development that is underway in response to growing oil sands production. As well, projects using new technologies and in non-traditional regions are raising new issues including addressing unique circumstances around liquefied natural gas (LNG), pipelining in permafrost, change of pipeline use and alternative integration evaluation.

Implications for the National Energy Board

The increased demand for energy infrastructure development was reflected in the increased number of major facility applications the Board was required to review in 2006-2007. Also, there were a significantly higher number of hearings before the Board when compared to previous years. The magnitude of the demand for new energy supplies and infrastructure is placing increasing demands on the NEB to be as efficient, clear and predictable as possible.

Regulatory Coordination, Efficiency and Effectiveness

In the context of increasing infrastructure project applications, the NEB continues to explore opportunities to optimize the existing regulatory framework. In particular, the NEB is working toward a "one project, one review" system. One means of achieving this is by using the substitution provision in the CEA Act. In 2006-2007, the Minister of Environment used this provision to substitute the NEB public hearing process for a CEA Agency review panel on a pilot basis, to assess the environmental effects of the Brunswick Pipeline application. The NEB is committed to working with the CEA Agency to evaluate that pilot and to implement the changes required to enable the NEB process to be substituted in all applications for NEB-regulated projects that would otherwise involve a CEA Agency panel review.

Although project-specific solutions within the existing legal and regulatory framework have been found, lasting solutions tend to take a long time to develop and are often complex. The regulatory framework in Canada faces many challenges with respect to streamlining and jurisdiction. These challenges often include unresolved broad public policy issues such as unsettled land claims, or longstanding social and economic issues, as well as challenges associated with navigating through federal/provincial process. Another challenge is the time involved in the examination of environmental issues; currently this takes more time in public hearings than all other issues combined. In addition, increasing landowner concerns regarding perceived issues around the number of pipelines, pipeline safety and compensation add to the picture of regulatory complexity.

The NEB continues to work within its own processes, and with others administering parallel and overlapping processes, to find ways to improve regulatory efficiency. To

this end, the NEB continues to work to provide clear and predictable processes; meet performance measures and service standards; focus on goal-oriented regulation and risk-based assessment and compliance; and engage in dialogue with stakeholders with respect to implementing improved approaches.

Recruitment and Retention of Skilled Knowledge Workers

Maintaining the NEB's regulatory capacity continues to be one of the Board's highest priorities emerging from 2006-2007. To deliver on its expected results, the Board needs to recruit, develop and retain the technical and analytical expertise required. This is a significant challenge given the continuing high demand for expertise throughout the energy sector. As the demand for the technical skills tightens, the NEB finds that it is unable to compete with the responsiveness of the private sector in offering competitive wages and benefits. The Board continued to sustain significant attrition at the mid and senior levels due to industry's active recruitment across the energy sector. The Board is also competing with the private and public sector for the scarce resources graduating from post secondary institutions. This staffing challenge is exacerbated by an aging demographic and a lack of experts within the job market. The NEB has worked to implement the new *Public Service Employment Act* and maximize related benefits; pilot a market-based allowance and pay for performance plan; enhance recruitment and retention, and leadership development; and improve rewards and recognition processes. However, attrition continues and further innovative approaches to ensure staff retention in the current market are required.

Provision of Energy Information

Given the current high price energy environment and the need to develop new energy supply sources, Canadians in both the public and private sectors are required to make choices about energy sources for the future. There is a need to ensure that Canadians understand our volatile energy environment and that policy makers have access to independent, timely and objective energy information in order to make informed decisions. The NEB receives feedback throughout the year regarding the importance and timeliness of its energy information products and continues to work toward meeting our target audiences' energy information needs.

1.2.5 Departmental Priorities

For 2006-2007, the NEB identified three priority areas that required specific focus and development. A summary of the status and resource allocation for each priority is provided in Table 1; a summary of progress made on these priorities follows.

Table 1: Summary Information Table

Plans and Priorities 2006-2007			
Strategic Outcome: Safety, security, environmental protection and economic benefits through regulation of pipelines, power lines, trade and energy development within NEB jurisdiction.			
Program Activity: Energy regulation and advice			
Financial Resources ($ millions)			
Planned Spending	Total Authorities	Actual Spending	
37.9	43.4	44.5	
Human Resources (Full-time equivalents)			
Planned	Actual	Difference	
305.1	305.26	+0.15	
Departmental Priorities 2006-2007			
Priority	Status on Performance	Planned Spending ($ millions)	Actual Spending ($ millions)
Regulatory framework	Successfully met	4.7	5.3
Energy information	Successfully met	1.9	2.1
Capacity and culture	Successfully met	1.3	1.5
The results of the NEB's Program Activity "Energy Regulation and Advice" are described in Section II Analysis of Program Activity, under the NEB's Strategic Plan Goals.			
Link to Government of Canada Outcome Areas			
The NEB contributes to the Government of Canada Outcome area of strong economic growth.			

NEB Priorities in 2006-2007

For 2006-2007, the NEB identified three priority areas that required specific focus. Following is a summary of progress made on these priorities.

1. Improve the Regulatory Framework

Over the past year, the NEB was able to implement a number of improvements in its regulatory framework resulting in increased efficiencies, both in a planned manner and as opportunities arose. Through its quality management system, the NEB consolidated its regulatory framework to provide clarity on the "how" and "what" of its mandate and to create the basis for enabling ongoing improvements toward efficiency and responsive regulatory processes. Specific regulatory improvement initiatives included the NEB's work with INAC and NRCan to bring a modernized regulatory framework to the North through developing potential amendments for the CPR Act and the COGO Act. NEB worked collaboratively with INAC and NRCan to develop common recommendation areas that will be moved forward for submission in 2007-2008. In addition, the Board continues to develop and implement goal-oriented regulation and to build and implement a risk-based integrated compliance system.

The NEB undertook a number of initiatives in 2006-2007 with the goal of enabling the public to more effectively participate in Board processes. To support the lead agency substitution option under the CEA Act, the NEB thoroughly reviewed options for

participant funding and will be moving forward with a longer term plan to discuss options with related agencies and develop proposals that may involve legislative change. Through a northern engagement review, a needs assessment was conducted to determine best practices for developing regulatory processes resulting from applications in the North.

The NEB continues to put considerable effort toward streamlining regulatory processes with the options and tools available to it. In 2006-2007, the NEB was able to obtain substitution status under the CEA Act for the Brunswick Pipeline application. The NEB's public hearing process was substituted for a panel review under the CEA Act. As the proponents had to work with just one lead regulatory agency in this case, the timeframe for the process was significantly less than for the joint panel reviews undertaken in the past. From the time of the application to the release of the Board's decision, the process took twelve months.

2. Inform the Energy Policy Debate

Given the current high price energy environment, environmental concerns, and the need to develop new energy supply sources, Canadians in both the public and private sectors are engaging in discussion about energy issues and making choices about energy sources for the future. As a result, there is an increasing need to provide Canadians with reliable, timely and easily accessible information on Canadian energy. Through its regulatory mandate, the Board maintains expertise and knowledge about energy in Canada.

To address this priority, NEB enhanced its energy information program in 2006-2007 with both summer and winter energy market outlooks that provide Canadians information on energy supply and demand trends. The NEB also launched a news page on its Internet site entitled *Energy Pricing Information for Canadian Consumers*. This website provides Canadian consumers with information on the main energy commodities, including oil, natural gas, propane, butane and electricity, primarily with respect to pricing and factors affecting pricing. For background, information is also provided on how Canadian energy markets work, including a summary of each industry in Canada, frequently asked questions and helpful Web links, including those that provide pricing data. This section has proven to be popular and useful as it received over 16,000 visits since its inception in January 2006, and is increasingly referenced in the press and business reports.

As part of its energy information program, the NEB produced four energy market assessments in 2006-2007 to meet specific information needs in the areas of natural gas deliverability, natural gas for power generation, oil sands development and energy transportation. The NEB met with interest groups and stakeholders across Canada for input into the development of its *Energy Futures* report, to be released in 2007.

3. Enhance NEB capacity and culture

The rapid growth of the energy industry is expected to continue to 2020. With the costs and economic risks associated with pipeline construction, and with the requirement for environmental and regulatory assessments to develop and consider projects in the

Canadian public interest, the need for a skilled, knowledgeable workforce is higher than ever. At the same time, the energy industry is actively competing for individuals with the same technical skill sets that the NEB requires. The NEB's annual attrition rate has more than doubled from 7 percent in 2003 to 14.5 percent in 2006. More than half of these departures were fully trained, experienced employees drawn from the ranks of our professional engineers, inspectors, environmental specialists and market analysts. In Calgary's current hot job market many of these professionals are in high demand and will remain so for the foreseeable future.

The NEB took specific steps in 2006-2007 to address the current challenges associated with recruiting and retaining staff. A capacity gap analysis was carried out to identify upcoming capacity gaps in key job families, as well as for bilingual capacity and appropriate representation. The NEB worked with Treasury Board to develop options for increasing recruitment and retention tools. A market comparison study was conducted to review the NEB's wage structure with comparable job families in the private sector. The NEB then worked with Treasury Board and, in a very short period of time, was able to introduce a key attraction and retention package that includes a market-based allowance structure for employees working in positions directly related to the energy sector and a pilot pay-for-performance program for all employees.

The NEB continued to develop and implement its Quality Management System, which proves to be an invaluable tool in the current tight employment market. With the rate of staff turnover, in particular with the departure of experienced staff, the Quality Management System provides continuity, structure and training for the NEB's key processes.

The NEB revised its human resources plan, the People Strategy, in 2006-2007, incorporating plans to address capacity gaps, build job families, and address bilingual and representation gaps.

Section II : Analysis of Program Activity

2.1 Strategic Outcome

Safety, security, environmental protection and economic benefits through regulation of pipelines, power lines, trade and energy development within NEB jurisdiction.

2.2 Program Activity: Energy Regulation and Advice

The NEB's main business is energy regulation and the provision of energy market information. The companies that are regulated by the Board create wealth for Canadians through the transport of oil, natural gas and natural gas liquids and through the export of hydrocarbons and electricity. As a regulatory agency, the Board's role is to help create a framework that allows these economic activities to occur when they are in the public interest.

Financial Resources: ($ millions)

Planned Spending	Total Authorities	Actual Spending
37.9	43.4	44.5

Human Resources (full-time equivalents):

Planned	Actual	Difference
305.1	305.26	+0.15

2.3 Analysis by Program Activity

In support of its strategic outcome, the NEB has developed five strategic goals. In this section, the outcomes and performance results from planned actions, as described in the 2006-2007 *Report on Plans and Priorities* (RPP), are discussed.

2.3.1 Goal 1

NEB-regulated facilities and activities are safe and secure, and are perceived to be so.

The NEB ensures that NEB-regulated facilities operates in a manner that protects employee, contractor, and public safety. The NEB's mandate now also includes oversight for the security of pipelines and international power lines, reflecting amendments made to the NEB Act that came into effect in April 2005. The NEB's commitment to safety and security encompasses the full lifecycle of energy projects within its jurisdiction.

The safety and security risks associated with facilities and activities regulated by the NEB are managed through competent design, construction, operation and maintenance practices. The NEB plays a significant role in safety and security by ensuring a regulatory framework is in place that encourages companies to maintain or improve their safety and security performance. The Board ensures that companies identify and manage the safety and security risks associated throughout the lifecycle of regulated facilities, by:

- developing goal-oriented regulations and guidelines;
- assessing facility applications from an engineering and safety perspective;
- ensuring that appropriate mitigation measures and approval conditions are in place before granting project approval;
- reviewing construction progress reports, inspecting facilities, conducting compliance meetings, and auditing management systems to confirm regulatory requirements are met and continue to be met;
- assessing safety practices and procedures under the NEB mandate as well as through the *Canada Labour Code* (CLC) through a Memorandum of Understanding (MOU) between Human Resources and Social Development Canada and the Board;
- investigating incidents with the intent of preventing future similar occurrences;
- responding to emergencies to monitor and contribute to the effectiveness of company responses;
- issuing safety advisories; and
- conducting inquiries or formal investigations into safety and security issues.

The combined efforts of the NEB, industry and other stakeholders, within this regulatory framework, have resulted in heightened safety awareness, no operating hydrocarbon pipeline ruptures since 2002 and no pipeline-related fatalities since 1997.

Performance Measures and Results

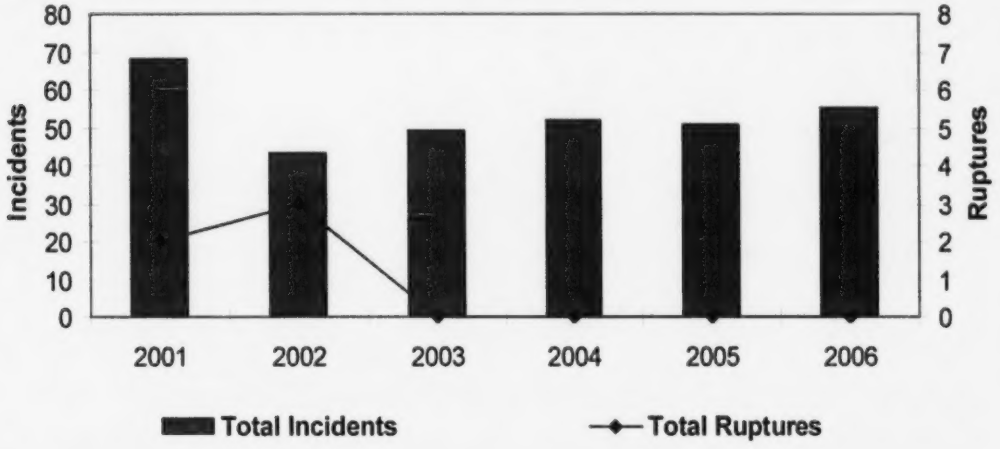
For Goal 1, the NEB has four key performance measures to ensure that NEB-regulated facilities are safe and secure. They are:

- Number of fatalities per year.
- Number of pipeline ruptures and incidents per year.
- Public perception of pipeline safety.
- Number and significance of security infractions.

In 2006, the number of incidents reported under the NEB Act pursuant to section 52 of the *Onshore Pipeline Regulations, 1999* (OPR-99) and section 46 of the *Processing Plant Regulations* remained within the same range as the previous years (Figure 1 shows

incidents by calendar year). No hydrocarbon pipeline ruptures occurred during 2006. The last rupture on an NEB-regulated hydrocarbon pipeline occurred in 2002.

Figure 1: Pipeline Ruptures and Incidents, 2001-2006



One fatality occurred during the construction of an NEB-regulated international power line in New Brunswick in December 2006. An experienced contractor from Nova Scotia was killed when a section of the crane he was dismantling fell on him. The Board reviewed the incident and issued a safety advisory in April 2007. The Board has received the final report from the New Brunswick Health, Safety and Compensation Commission. The NEB and regulated companies maintain a strong focus on improving contractor safety, which continues to occur at a higher frequency than company employee injuries.

The NEB has a target of zero ruptures on the pipelines it regulates. In 2006, there were no operating hydrocarbon pipeline ruptures; however, there was a sulphur commodity pipeline failure in July 2006. A gas plant experienced an electrical failure due to lightning which caused a complete shutdown of the facility including the sulphur commodity pipeline heating elements. This caused the sulphur in the pipeline to solidify which effectively removed the pipeline from operation. Once electrical power was restored, the company attempted to re-melt the sulphur and put the pipeline back into operation. During this process, the pipeline failed from overpressure.

In 2006-2007, total hazardous occurrences in Frontier areas, as defined under section 16.4 of the *Oil and Gas Occupational Safety and Health Regulations* under the CLC Part II, increased from 24 in 2005-2006 to 29 in 2006-2007 (Table 2). This was attributed to an increase in reportable spills which rose in the fourth fiscal quarter. There were no disabling injuries in 2006-2007 which represents a decrease from four in fiscal 2005-2006. This translates into a decrease in frequency from two disabling injuries per million hours worked in 2005-2006 to zero in 2006-2007. For activity covered under the COGO Act and the CLC, and related regulations, no fatalities occurred during 2006-2007.

Table 2: Safety Performance Indicators for Companies Regulated under COGO Act

Indicators	2005-2006	2006-2007
COGO Act Worker disabling injury rate (Lost Time Injury/106 hours worked)	2	0
COGO Act Hazardous Occurrences	24	29
Fatalities	0	0

Public perception of pipeline safety

One of the key findings of the NEB's March 2007 *Focus on Safety and the Environment 2000-2005* report was that the low number of ruptures in recent years is primarily attributed to the introduction of Integrity Management Programs (IMPs) within the pipeline industry. The NEB was the first regulator in North America to mandate that pipeline companies must have IMPs, with the promulgation of the OPR-99. The OPR-99 reflects the Board's goal-oriented approach to regulation by directing companies to have IMPs and by allowing them the freedom to tailor the content of the IMPs to their particular circumstances.

Number and significance of security infractions

Regulated companies voluntarily report security infractions to the NEB. NEB-regulated facilities did not report any major or minor security infractions in 2006-2007.

A number of initiatives have been undertaken to further the NEB security program. In fiscal 2005-2006 a Memorandum of Understanding was signed between the NEB and the Alberta Energy and Utilities Board (AEUB) for cooperation in security assessments. Through cooperation the following milestones have been achieved during 2006-2007:

- A security assessment protocol was developed and implemented;
- A security education presentation to industry was developed and presented;
- Six scheduled AEUB-NEB joint security assessments were completed; and
- Three NEB staff attended the assessments for development and training purposes.

This year, the Board developed a document entitled *Regulation of Security Management at the NEB* which formalized and documented the approach that the NEB will use to regulate security of energy infrastructure under its jurisdiction.

NEB staff participated in Exercise NARWHAL 07 which was a joint military, RCMP, Public Safety Canada, Northwest Territories Emergency Measures Organization, NEB exercise that simulated a threat against oil and gas facilities in the Norman Wells area.

Program and Results on Objectives of 2006-2007

The NEB identified objectives for Goal 1 and Goal 2 in its 2006-2007 RPP. The objectives for Goal 1, which focuses on safety and security, apply to Goal 2, which

focuses on the environment. The results achieved for Goals 1 and 2 under these objectives are discussed below.

1. The NEB has a fully operational integrated compliance system enabling effective risk-based decision-making related to safety, security and environmental protection.

The NEB's integrated compliance system supports a lifecycle regulatory approach through the integration of its application, audit and inspection processes while optimizing resources. In 2006-2007, the integrated compliance initiative saw the use of an improved prioritization tool for conducting NEB inspection and audit programs. Numerous data quality improvements were achieved and an interim data management strategy was successfully implemented. Using risk-based tools, inspections and audits were focused on facilities and companies identified using a prototype prioritization model, resulting in a unified Compliance Verification Strategy.

One of the Board's major actions in 2006-2007 was to execute action plans to address compliance issues with emergency management, security management, and unauthorized right of way activities. These action plans are being implemented through the NEB's Compliance Verification Strategy. In addition, the Board moved toward gazetting of the *Damage Prevention Regulations* with the expectation that the regulations will be promulgated in 2007-2008. This will enhance the NEB's pipeline damage prevention program.

2. The NEB, in partnership with federal and provincial/territorial agencies, has in place harmonized environmental assessment processes.

Over the past year, the NEB has continued its efforts to develop tools and resources to optimize the effectiveness and efficiency with which it carries out its Goal 2 mandate through the various stages of the regulatory lifecycle. One key area of accomplishment was achieving coordination in environmental assessment processes with federal and provincial/territorial agencies. Coordination has been successful on a project-specific basis over the past year, and it is now being applied routinely to large facilities applications coming before the Board. Working with other regulatory agencies and government departments to develop environmental assessment coordination agreements resulted in minimizing duplication and streamlined environmental assessment reports.

A successful pilot regarding environmental assessment substitution through the CEA Act was achieved for the Brunswick Pipeline application, providing an effective, streamlined, one-window approach to environmental and regulatory assessment of a large, complex, NEB-regulated project. The successes and experiences gained in implementing this pilot framework provide a strong foundation for continued development and implementation of environmental assessment substitution for future candidate applications filed with the NEB.

The collaborative work that the NEB carries out with other agencies was also evident in the TMX - Anchor Loop Application. The project required an environmental screening under the CEA Act. To achieve greater regulatory efficiency, the NEB worked together

with other federal and provincial authorities to create a coordinated environmental screening process that would meet the various environmental assessment requirements. Positive feedback was received from the agencies involved on increased efficiency as a result of the coordinated process.

3. The NEB has in place mechanisms to collect and disseminate best practices and ensure continual improvement in the design, construction and operation of regulated facilities.

The NEB promotes the complementary goals of safety and environmental protection throughout the lifecycle of projects within its jurisdiction. Each application is assessed from integrity, safety, security and environmental perspectives to ensure the project could be constructed and operated in an appropriate manner. This is followed by inspection and monitoring of approved projects during construction and operation; auditing of safety, integrity and environmental protection programs; and investigation of reportable incidents.

The NEB's full regulatory lifecycle responsibilities mean that it collects a significant amount of information on the safety and environmental performance of its regulated companies. This in turn provides the Board with ongoing, practical lessons about best practices which the Board applies in its regulatory activities.

The NEB continues to consult with industry and interested parties to identify opportunities for improvement in areas such as emergency and security management through participation in the Canada Standards Association (CSA). The Board also continues to seek new forums for communication.

One of the Board's initiatives for 2006-2007 was to disseminate best practice information on safety, security and the environment. Phase I of this work is partially completed; resource constraints at the NEB have not enabled the Board to complete Phase I of this project, and it has been extended into 2007-2008.

In 2006-2007, the Board was tasked to produce guidance documents for security management in partnership with CSA. The CSA approved a proposal to develop a *CSA Security Management Standard for the Petroleum and Natural Gas Industry*. NEB staff chair this committee. The scope of this standard will include all petroleum and natural gas industry systems including, but not limited to, pipelines, oil and gas production facilities, meter stations, compressor stations, pump stations, gas plants, tank farms, terminals, LNG facilities, processing facilities, underground storages, the Supervisory Control and Data Acquisition system, and other supporting assets. The project is on track for publication of a security standard in 2009-2010.

2.3.2 Goal 2

NEB-regulated facilities are built and operated in a manner that protects the environment and respects the rights of those affected.

The NEB strives to fulfill its commitment to protecting the environment and respecting the rights of those affected throughout the lifecycle of the facilities it regulates. This lifecycle approach includes the sharing of information and expectations during pre-application project design and application preparation, assessment of the environmental and social impacts of proposed projects at the application stage, monitoring and inspection of approved projects and condition compliance during construction and operation, auditing of environmental protection programs, investigating spills and releases, and ensuring that the abandonment of facilities is carried out appropriately to protect the environment and to address the concerns of affected landowners and residents. Throughout these phases, the Board makes efforts to ensure that regulated companies engage with those people whose interests are potentially affected by their projects and activities.

In addition to accomplishing key objectives for environmental assessment harmonization and substitution, the NEB made progress in improving on other areas of its risk-based integrated compliance approach to fulfill its Goal 2 responsibilities. In 2006 the NEB initiated work on streamlining its approach for dealing with small pipeline applications by exploring ways to align application preparation and assessment expectations with the level of risk associated with the proposed facility. The NEB began to implement some elements of an integrated system for promoting effective, risk-based decision making related to environmental protection and respecting the rights of those affected. For instance, the management system audit of Trans Quebec and Maritimes Pipelines Inc. completed last year included an examination of environmental programs, and a focused environmental audit was carried out on an ExxonMobil plant in Nova Scotia. The NEB also began to apply a new lifecycle, risk-based approach for assessing some facilities applications filed in the past year, including Nexen's Cuthbert Gas Pipelines, Enbridge Westspur's Alida to Cromer Capacity Expansion, and TransCanada's Keystone Pipeline.

The NEB continues to advance its Goal 2 mandate to respect the rights of those affected. In 2006 the NEB responded to 20 cases in which landowners brought forward issues regarding the effects of NEB-approved facilities on the use and enjoyment of their properties. Over 90 percent of these complaints were resolved within the NEB's service standard (80 percent in 60 days). In all but one of these cases NEB staff were able to help the company and the landowner resolve the dispute among themselves without the need for a Board decision. Furthermore, significant progress in developing the Damage Prevention Regulations was made in 2006, including consultation with stakeholders. The progress achieved in 2006-2007 has increased the possibility that these regulations will be ready for implementation within the next year.

Performance Measures and Results

Similar to previous years, the NEB used the following two measures to gauge its performance in fulfilling its Goal 2 mandate:

- Percent of environmental conditions that achieved their desired end results.
- Number of major releases into the environment per year.

Percent of environmental conditions that achieved their desired end results

Environmental conditions are attached to project approvals to address specific environmental issues associated with a project. Each condition attached to an Order or Certificate issued by the Board has a defined desired end result (DER). Once condition compliance is confirmed, the NEB assesses the effectiveness of environmental conditions by evaluating achievement of the DER. Achievement of the DER is confirmed through NEB inspections and project monitoring. Measuring the DER achievement of environmental conditions aids the Board in determining the need for and opportunities to improve the clarity and effectiveness of the conditions it places on facility approvals.

All environmental conditions evaluated for achievement of DER were confirmed to be effective in achieving their desired outcomes over the past year. This is a continuation of the trend realized in recent years toward increasing levels of DER achievement, even though condition compliance rates have not always been steadily improving in the same manner (Table 3). These trends reflect the investment that the NEB has made to improve the relevance and effectiveness of regulatory conditions.

These results indicate that companies reached a level of full compliance with the environmental conditions set by the NEB in the past year and that all of these conditions were effective in achieving the DER. The results are also indicative of the NEB's efforts to improve the internal tools and processes that guide the use of conditions in facilities regulation.

Table 3: Environmental Condition Compliance and Achievement of Desired End Results

Year	Condition Compliance (%)	DER Achieved (%)
2006	100	100
2005	88	99
2004	89	96
2003	97	91
2002	97	81
2001	93	82

Number of major releases into the environment per year

Major releases are defined as unintended or uncontained releases exceeding 100 m^3 of liquid hydrocarbon. The number of major releases of liquid hydrocarbon to the environment is considered a key indicator of the success of operating facilities regulated

by the Board with regard to Goal 2. The desired target is that NEB-regulated facilities operating under approved permits and conditions should have no major releases to air, land or water.

One major release by an NEB-regulated company occurred last year, involving an accidental release of 126 m^3 of sweet crude oil from a facility under the responsibility of Enbridge Inc. near Cromer, Manitoba. NEB staff investigated the site soon after the spill, and this investigation is ongoing. The number of major releases is down from the two encountered in 2005 and within the range of between zero and three occurring annually over the past several years (Table 4)

Table 4: Major Releases to the Environment During Operation

Year	No. of Major Releases
2006	1
2005	2
2004	0
2003	0
2002	1
2001	1
2000	0
1999	3
1998	0

Program and Results on Objectives of 2006-2007

The objectives for Goal 1, which focuses on safety and security, apply to Goal 2, which focuses on environment. The results achieved toward Goal 2 under these objectives are discussed under Goal 1.

2.3.3 Goal 3

Canadians benefit from efficient infrastructure and markets.

The NEB promotes efficient energy infrastructure and markets through the regulation of pipeline and electrical transmission facilities, pipeline tolls and tariffs, and energy imports and exports. The NEB also provides energy information to Canadians and works to continually improve the efficiency of its regulatory processes.

The NEB is responsible for approving natural gas, natural gas liquids, crude oil and electricity exports. The basis of the NEB's approach for the authorization of exports is to ensure that Canadians have access to Canadian-produced commodities on terms and conditions at least as favourable as those available to export buyers. To achieve this outcome, the NEB undertakes extensive monitoring and reporting of market conditions. The NEB promotes functional markets and monitors these markets to verify they are responding to market signals consistent with the fundamentals of supply and demand.

Additionally, the NEB monitors transportation markets for the utilization and adequacy of pipeline capacity. The NEB also informs the public about energy market trends on an ongoing basis. Providing and interpreting energy market information contributes to the efficient operation of energy markets.

Finally, in the context of the NEB's operations, efficient energy infrastructure and markets embodies regulatory efficiency. This includes reducing regulatory barriers, streamlining regulatory processes and effectively coordinating these processes with other agencies, when appropriate, and striving to minimize costs incurred by parties.

Performance Measures and Results

To gauge results under Goal 3, the NEB used three performance measures:

- Evidence that Canadian energy and transportation markets are working well.
- Evidence that advice and information products benefit Canadians.
- Evidence that the NEB's regulatory processes are efficient and effective.

Evidence that Canadian energy and transportation markets are working well

Energy Markets

A key indicator that energy and energy transportation markets are working well is that Canadians can obtain energy commodities on similar terms and conditions that are equitable with those of export buyers. In the context of the North American market, this means that the prices paid for oil, gas and electricity in the domestic market should be responsive to demand and supply pressures and, in an integrated market, essentially the same as the prices in the export market. Price trends over the past several years indicate that domestic and export prices have been tracking closely (Figures 2 to 5).

Figure 2 illustrates that the natural gas market continues to work. Canadians are paying fair market prices for natural gas. In 2006, gas prices retreated from the 2005 post hurricane peaks as there were no winter supply difficulties encountered in North America and in recognition that natural gas storage was going to be filled earlier than normal. In the fall, prices climbed in anticipation of normal winter weather.

Figure 3 illustrates that the light crude oil market continues to work. Canadians are paying market prices for light sweet crude oil. In July 2006, crude oil prices peaked at US$78.40 per barrel during intraday trading on concerns of escalating conflicts in the Middle East (note: the number is higher in Figure 3 because it is in Canadian dollars). By year-end, prices had plunged, largely due to very high crude oil inventories in the U.S. and a lack of cold weather in key heating oil markets.

Figure 2: Comparison of Export and Domestic Natural Gas Prices

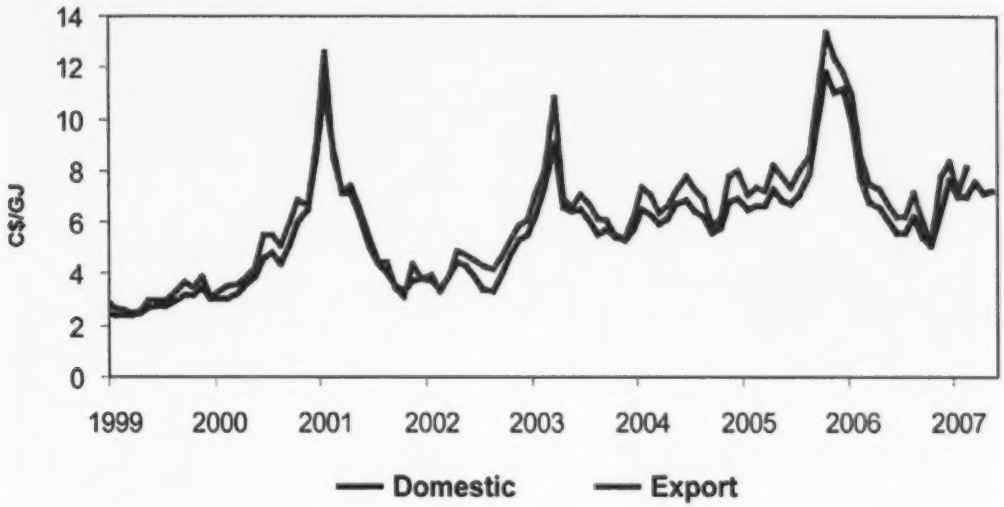
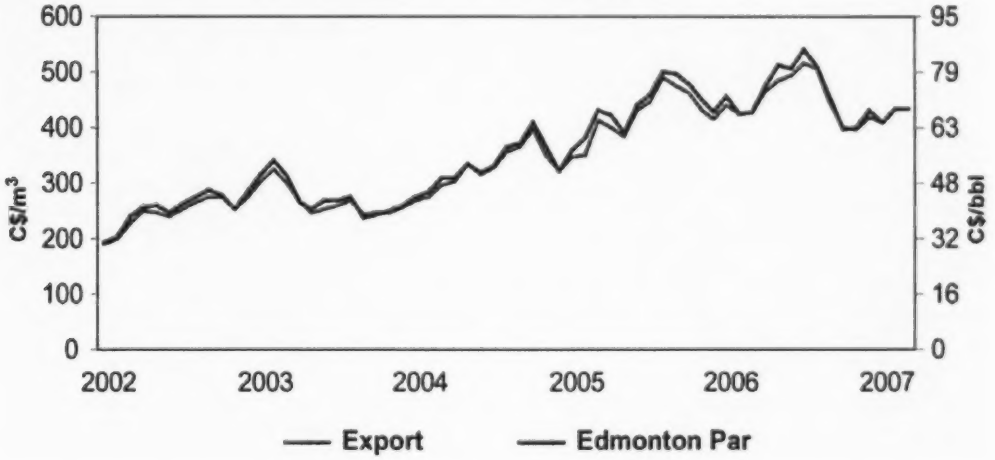


Figure 3: Comparison of Export and Domestic Oil Prices

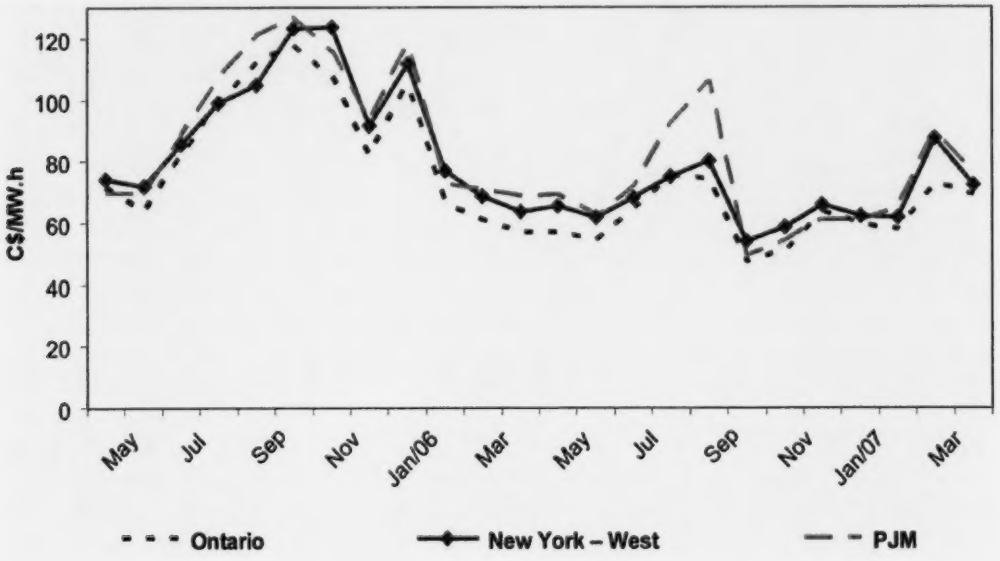


In the first quarter of 2007, colder temperatures and refinery interruptions in Canada and the U.S. resulted in declines in inventory levels of petroleum products adding upward pressure to crude oil prices. A fire at Imperial Oil Ltd.'s Nanticoke refinery caused gasoline and diesel fuel shortages in Ontario and parts of Quebec.

In Canada, only Ontario and Alberta have functioning electricity markets where price is determined by the forces of supply and demand. Figure 4 and Figure 5 illustrate prices in interconnected electricity markets. Where interconnected markets have adequate generation and are connected by efficient and effective transmission systems, price changes in one market should reflect price changes in the other. If transmission constraints exist between the interconnected markets, there will be less tendency for prices to be correlated.

For example, Ontario wholesale electricity prices are correlated with adjacent U.S. markets. Figure 4 shows Pennsylvania–Jersey–Maryland (PJM) Interconnections and New York–West pricing points.

Figure 4: Ontario (IESO) and New York Electricity On-Peak Power Prices



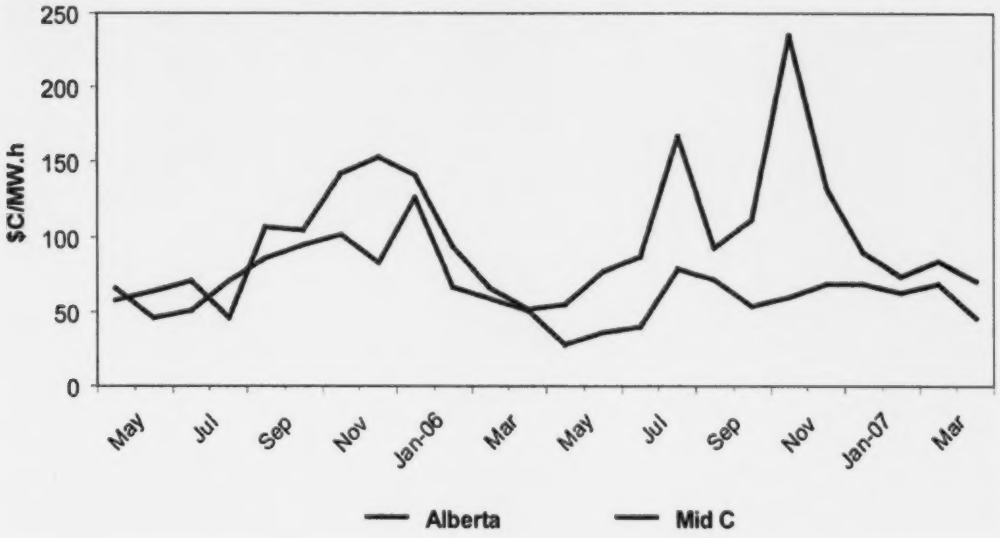
Ontario peak prices increased to C$66/MW.h in July 2006, from C$55/MW.h, during a period of hot weather that drove power demand up to record levels or near record levels almost everywhere in North America.

Although Ontario experienced a record demand of 27,005 MW (versus a capacity of approximately 31,000 MW) on 1 August 2006, price increases were relatively moderate because of adequate supply.

With cooler than normal weather in September, decreased air conditioning demand resulted in lower natural gas prices and lower electricity prices.

As shown in Figure 5, the Alberta Electric System Operator (AESO) on-peak power price and the Mid-Columbia, or Mid-C price in Washington State represent western pricing points. Correlation between the two prices is evident but is not as close as in eastern Canada. Transmission constraints continue to limit the volume of energy that can be traded between the regions.

Figure 5: Alberta (AESO) and Mid-Columbia (Mid-C) On-Peak Power Prices



The Alberta monthly pool price spiked to C$128/MW.h in July 2006 due to a tight supply/demand balance when temperatures were high. Some generation supply had been lost and import transmission was limited. The monthly pool price increased again in October 2006 to C$174/MW.h when 1,500 MW of coal generation was offline due to planned outages.

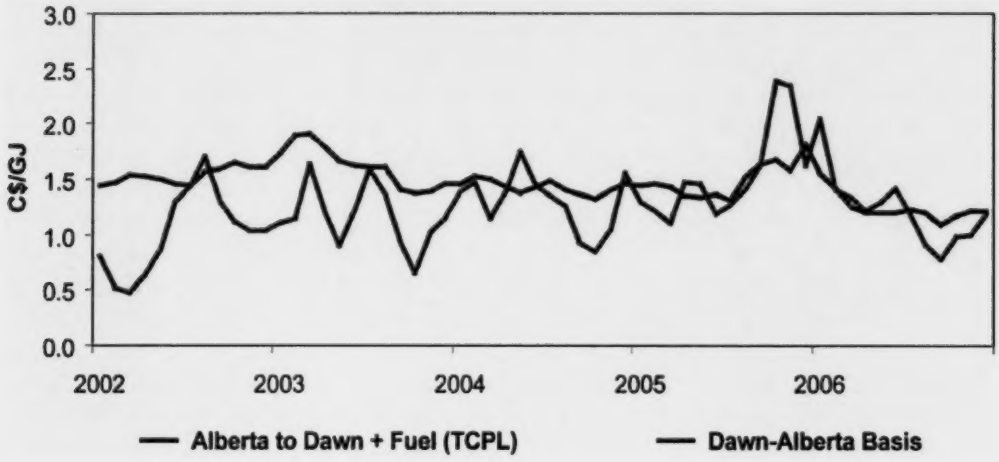
Transportation Markets

For the natural gas and oil pipeline transportation systems to work well, the following three factors must be present: 1) there is adequate pipeline capacity in place to move products to consumers who need them; 2) pipelines are providing services that meet the needs of shippers at reasonable prices; and, 3) pipelines have adequate financial strength to attract capital on terms that allow them to build infrastructure and maintain their systems at a reasonable cost to customers.

With respect to the adequacy of pipeline capacity, one measurement is based on the principle that if adequate capacity exists, the difference in commodity price between two markets connected by a pipeline should be similar or less than the cost of transportation. Prolonged periods of a higher price differential could indicate the need for additional capacity on a pipeline, as prices at the production end become relatively depressed if there is adequate ability to move supplies to market.

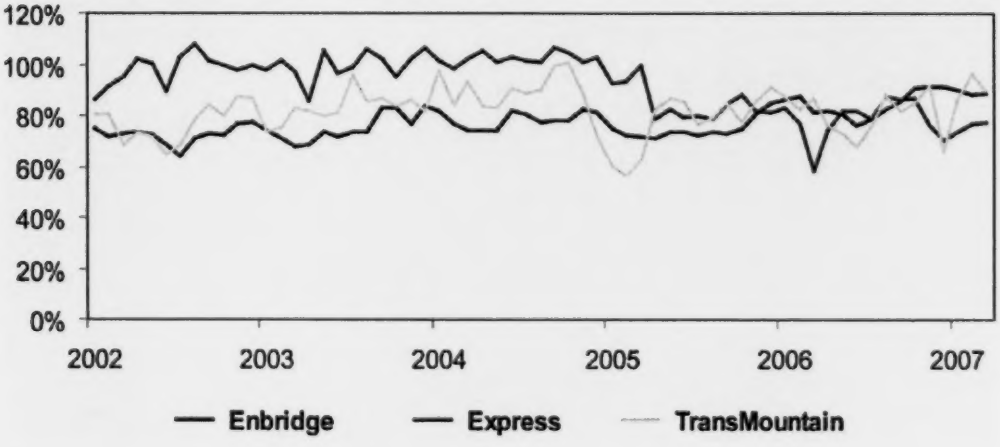
As Figure 6 shows, the historical gas price difference between Dawn, Ontario and Alberta has generally been less than the cost of transportation (firm transport plus fuel) via the TransCanada pipeline which connects these two markets. This provides an indication that in general there has been sufficient pipeline capacity between Alberta and Ontario. Using similar analysis, the NEB concludes that adequate capacity existed on all major gas pipeline corridors over the last year.

Figure 6: Alberta Basis versus Transportation and Fuel Cost



The NEB also directly monitors pipeline throughput relative to capacity to gauge whether an adequate level of transportation is available. This analysis also indicated that natural gas pipeline capacity was adequate but showed some constraints on oil pipeline capacity in 2006-2007. Oil pipeline capacity utilization is illustrated in Figure 7.

Figure 7: Oil Pipeline Capacity Utilization



For example, the Terasen (Trans Mountain) Pipeline (TPTM) system was unable to flow all volumes offered to it on a number of occasions as an increase in transportation of heavier crude volumes decreased available capacity. Despite the addition of 5,600 m^3/d (35 Mb/d) of capacity in April 2007, TPTM continues to operate near full capacity. Strong demand for Western Canadian crude oil from refineries located in Washington State, coupled with a supply outage in Alaska increased throughputs on the Trans Mountain system. Express was also required to apportion capacity between the shippers several times during the year as a result of increased shipments downstream on the Platte pipeline due to growth in crude oil production in the US Rockies region. Certain lines on

the Enbridge system also have been operating at or close to full capacity and have at times been unable to flow all volumes offered.

While oil pipeline capacity utilization in 2006-2007 indicates that there was spare capacity on some of the pipelines in 2006, this was partially due to facility outages reducing the amount of crude oil or products to be transported. As Canadian oil production increases, capacity on Canadian oil pipelines remain very tight and additional capacity may be required.

In 2006 and 2007, the NEB has received or approved a number of applications for pipeline projects that propose to expand the capacity of oil pipelines in Western Canada. In October 2006, the Board approved an application by TPTM to expand a pumping station and to loop a portion of its pipeline.

Evidence that advice and information products benefit Canadians

The NEB provides information products about energy market trends so that the public has information to make decisions about choices for energy sources for the future, and so that policy makers have access to independent, timely and objective energy information to make informed decisions. The energy market information is provided through energy market assessments, statistical reporting and consultation with other organizations. All of this material is available through the NEB website. In 2006-2007, the number of web visits to the NEB Internet site doubled over 2005-2006, and the number of media references to NEB activities increased by 131 percent over last year, indicating greater use of NEB-source energy information.

Evidence that the NEB's regulatory processes are efficient and effective

The NEB continues to monitor the efficiency and effectiveness of its regulatory processes. Service standards have been published and posted on the NEB's website since 2005. Performance results on service standards are discussed in other sections of this document and summarized in Table 11.1.

The NEB compiles data on cycle times–the time between receiving an application and rendering an NEB decision–to track the number, type and processing time of applications it receives. This provides evidence that the NEB's regulatory processes are efficient and effective and helps pinpoint areas requiring attention. The NEB has established service standards for these cycle times. Table 5 shows the service standards for the various types of applications and permits and the performance relative to the service standard for the 2006-2007 year. It also includes the new service standards for electricity export applications.

The NEB's standard for electricity export applications has been 80 percent of all routine applications completed within 75 days of the receipt of a complete application. During the period April to December 2006, the NEB processed only two of five within the service standard. In three cases, the NEB was not able to meet its service standards due to applicant delays. Staff turnover at the NEB was also a contributing factor. As a result,

the NEB developed supporting tools and procedures to help improve its service standard success rate.

Table 5: Cycle Times and Service Standards

Type and Number	Processing Time		
Section 58 Applications[2]	Standard	Result	Average
Category A: 6[3]	80% in 40 days	83% in 40 days	33 days
Category B: 15	80% in 90 days	87% in 90 days	73 days
Category C: 0	80% in 120 days	Not applicable	Not applicable
Electricity Export Authorizations (April to Dec 2006)	Standard	Result	Average
Routine: 5 Non-routine: 3	80% in 75 days Not applicable	40% in 75 days Not applicable	79 days 118 days
Electricity Export Authorizations[4] New Service Standards (Jan-Mar 2007)	Standard	Result	Average
Category A : 0	80% in 40 days following the completion of the NOA/DOP period	Not applicable	Not applicable
Category B : 1	80% in 90 days following the completion of the NOA/DOP period	100% in 90 days	81 days
Category C : 0	No service standard	Not applicable	Not applicable

The NEB adopted new service standards for electricity export applications for implementation in January 2007. The service standards are based on the complexity of the application and are comparable to the section 58 service standards. Under the new service standards, the NEB processed one electricity export application during the period January to March 2007. This application was processed within the service standard requirement.

In 2006-2007 the NEB processed 226 short term applications, including 63 propane, 52 butane, 64 crude oil, 37 petroleum product export orders and 164 natural gas import and export orders. All export orders met the NEB's service standard of two working days.

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2 Section 58 applications are classified into one of three categories (minor, moderate, major) based on: their level of complexity; the estimated number and type of information requests which may be generated; the probability of third-party interest; and the level to which a Federal Authority may become involved in the environmental assessment of the application.

3 The NEB's streamlining order and Operations and Maintenance initiative have reduced the number of applications required without change to the regulatory expectations for safe construction and operation.

4 Electricity export applications are divided into one of three categories (minor, moderate, major) based on: their level of complexity; the estimated number and type of information requests which may be generated; and the level of third-party interest.

Program and Results on Objectives of 2006-2007

The NEB identified three objectives under Goal 3 in its 2006-2007 RPP. These objectives and the results achieved are discussed below.

1. NEB regulatory processes are efficient, seamless and responsive.

In 2006-2007, successful test cases were conducted to match the NEB's applications assessment processes to project complexity and risk. This approach considers the relative risk of the project, the compliance record of the applicant and the best means to ensure compliance given the NEB's ongoing regulatory oversight of the design, construction and operation of the facilities. In the assessment of one small natural gas pipeline application, as a pilot project, the time required to assess the application was significantly reduced and matters of safety, environmental protection and economic efficiency were properly addressed. The NEB will continue to pursue such efficient and flexible processes.

The NEB's focus on goal oriented regulation continues; significant progress has been made in developing the new *Canada Oil and Gas Drilling and Production Regulations*, the new *Damage Prevention Regulations* and the updated *Canada Oil and Gas Diving Regulations*.

The NEB continued to implement an ISO-based Quality Management System (QMS) for its own operations. QMS implementation included documenting processes, along with procedures, templates, work instructions, internal training on maintaining a QMS, and reviewing and improving processes. The availability of these materials to NEB staff has helped to streamline internal processes and supports the continuity, efficiency and timeliness of regulatory processes.

As part of implementing a QMS, the NEB undertook to document and improve its regulatory framework by outlining the outcomes that it works to achieve through its regulatory processes. The NEB developed a comprehensive and systematic model that integrates its vision, values, goals, outcomes and processes. This will allow the Board to improve the alignment of its activities to its goals and improve the measurement of its effectiveness.

During 2006-2007, the NEB implemented, jointly with NRCan and INAC, a review of the regulatory framework regarding the Frontier areas pursuant to its mandate. The three agencies developed a consensus list of possible amendments for the COGO and CPR Acts, and an action plan for the upcoming fiscal year to work toward a more effective and efficient regulatory framework for the Frontier areas.

2. Policy-makers, industry and the Canadian public are better informed on regulatory and related energy matters.

The NEB periodically produces specific in-depth energy market assessments (EMAs), as part of its regulatory mandate to monitor the supply and demand of energy in Canada. The reports discuss issues associated with, natural gas, oil, electricity and transportation markets. In 2006-2007, the NEB issued four reports:

- *Short-term Canadian Natural Gas Deliverability 2006-2008*
- *Natural Gas for Power Generation: Issues and Implications*
- *Canadian Hydrocarbon Transportation System: Transportation Assessment*
- *Canada's Oil Sands – Opportunities and Challenges to 2015: An Update*

All EMAs can be found on the NEB's website at http://www.neb-one.gc.ca under Energy Reports.

In 2006-2007, the NEB developed an enhanced suite of products and communication services for its energy market analysis and observations. Included were media briefings on the energy market reports and two media briefings providing the NEB's outlook for crude oil, natural gas and electricity markets prior to the summer and winter seasons. These outlooks assess the supply and demand balance going into the heating and cooling seasons and provide the NEB's expectations of how the markets will perform over the next few months. In addition, NEB Board Members and staff presented at various conferences and roundtables.

The improved suite of energy market communication products includes a new consumer-focused section within the NEB website, launched in January 2006, to provide Canadians with information about energy pricing in an easy-to-understand format. The energy pricing section examines oil, natural gas, propane and electricity and has attracted strong interest, recording more than 16,000 visits in 2006 and the first quarter of 2007.

The NEB has a legislative responsibility to compile data for several statistical reports related to its regulatory role in the oil, gas and electricity industries. Subject areas include natural gas exports, imports, volumes and prices; exports of propane and butane; crude oil and petroleum products exports; light and heavy crude oil export prices; crude oil supply and disposition; and imports and exports of electricity. These reports can be found on the NEB's website. The success of the suite of communication products was evident in the number of visits to the NEB website for energy information, statistics and reports in 2006-2007 – an increase of 45 percent from the previous year.

Feedback from stakeholders representing energy interests across Canada has shown that through the EMAs and its other initiatives, the NEB provides considerable value to Canadian decision makers through the integrity, independence and objectivity of the information and analysis it provides.

As part of the NEB's next study of Canada's long-term energy supply and demand, two consultations were conducted with key stakeholders across the country. The Energy Futures report, to be published in the fall of 2007, will provide an integrated analysis of energy markets from 2005 to 2030.

3. The NEB is proactive in providing fair outcomes for stakeholders regarding infrastructure investments.

The *Canadian Hydrocarbon Transportation System: Transportation Assessment* was published in June 2006. Using survey information from 2005, this report looks at whether the transportation system is working well and addresses questions of adequacy of pipeline capacity, pipeline services, and the financial capability of the pipelines. It concluded that NEB regulated pipeline companies are financially sound and currently have access to capital. The report also concluded that shippers continue to indicate that they are reasonably satisfied with the services provided by pipelines and there is adequate capacity in place on natural gas pipelines but capacity is tight on oil pipelines. An updated hydrocarbon transportation report based on 2006 survey data will be released in 2007.

2.3.4 Goal 4

The NEB fulfills its mandate with the benefit of effective public engagement.

Throughout its history the Board has provided opportunities for the public to participate in the regulatory decision-making process. In recent years, the scope of these opportunities has grown to include broad consultation on new processes, an increased number of meetings and hearings in affected communities, and a wider range of tools for the public to access information about the NEB's operations.

Effective citizen engagement requires a commitment by all stakeholders for open, honest and transparent communication. Parties affected by proposed projects have much at stake and in order to make decisions in the public interest, it is critical that the NEB ensures appropriate public engagement. Simplified processes, information sessions, Internet-accessible regulatory documents and Appropriate Dispute Resolution[5] are among the methods being used by the Board to support its goal of effective public engagement.

Hearing participants, and landowners in particular, have argued that this lack of support puts them at a disadvantage during specific hearings as many cannot afford to hire technical experts or lawyers to represent them or take unpaid leave to participate. The NEB is seeking to address the absence of participant funding.

By offering opportunities for interested Canadians to be effectively engaged, NEB processes become more accessible to a wide range of stakeholders. These deliberations will be enriched by having involvement with a broad spectrum of perspectives and ideas.

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5 Appropriate Dispute Resolution is a tool that can be used to resolve differences outside of hearings and court proceedings. Various approaches can be used including negotiation, mediation and workshops, leading to increased understanding of interests and perspectives, and an increased likelihood of a "win - win" outcome.

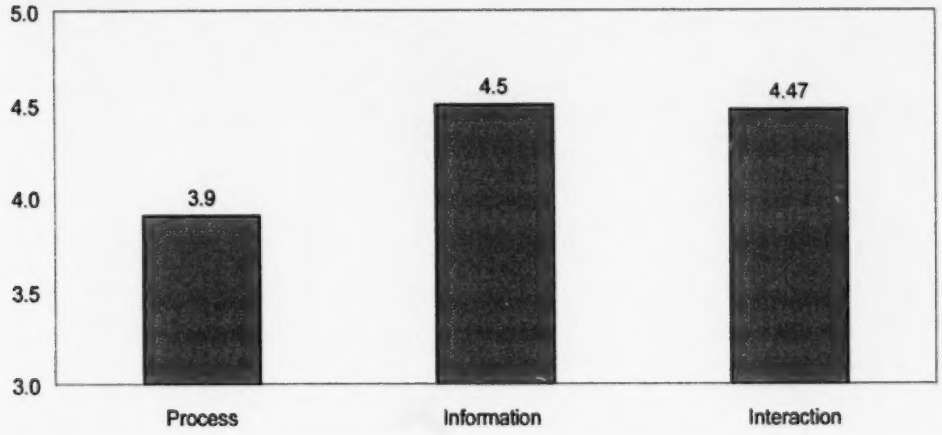
Performance Measures and Results

To measure the effectiveness of the Goal 4 work, the Board used the following measure:

- Stakeholders are involved effectively in the Board's public processes.

The Board is committed to ensuring that stakeholders are involved effectively in the Board's public processes. A composite indicator assessing stakeholder satisfaction with NEB processes, information and interaction is used to assess this measure. Based on data from a variety of sources, including surveys administered throughout the year after events such as workshops and hearings and through comment cards inserted into all publications, stakeholders indicated that they were satisfied with the Board's performance (Figure 8). Overall satisfaction was higher than last year: for processes up 5.4 percent; interaction up 9 percent; and information up 15 percent. These positive results reflect the NEB's efforts to ensure stakeholders understand what the NEB does and how to be involved in Board processes that affect their interests.

Figure 8: Stakeholder Satisfaction with Process, Information and Interaction



A greater number of events targeting the Canadian public and the media were organized in 2006-2007 in an effort to share information in a timely and efficient manner. The NEB has also taken an increasingly proactive approach with the media by being more responsive to the needs of reporters with respect to the type and extent of information provided, distribution of complementary information pieces and plain language reviews.

Visits to the NEB website are higher than ever. Total web traffic has seen a 95 percent increase over the previous year. Media hits, when a news item reports on NEB activities either by mentioning the NEB name or an activity, are also on the rise as can be seen in Table 6. With increased media interest in the east, the NEB saw a 382 percent increase in French media hits. The total percentage increase from the previous year of 131 percent reflects the commitment made by the NEB to be accessible through its communications efforts.

Table 6: Media Hits covering NEB Activities

Media Hits	2005-2006	2006-2007	Percent Increase
English	459	1033	125 %
French	11	53	382 %
Total	470	1086	131 %

Program and Results on Objectives of 2006-2007

As noted in the RPP, the NEB identified two objectives and the results of the work performed can be seen below.

1. Engagement and communication practices for NEB matters meet the needs of stakeholders.

The public engagement framework has been completed and supported by Board Members. The framework includes a logic model that is aligned with the NEB's strategic outcome as stated in the Program Activity Architecture. Each activity and process is being assessed from a quality perspective through the NEB's Quality Management System. Tools and templates are now available to staff to assess situations and to support consistent, timely engagement approaches across projects. Multiple information sessions were conducted in the pre-hearing phase of some projects in response to public interest in the affected regions.

Public and aboriginal engagement objectives were clarified through the development of an engagement logic model. Feedback was sought after each public information session and these evaluations consistently indicated that groups value the face-to-face interactions with NEB staff. Engagement project working groups have been created to better address landowner concerns originating from potential projects being scoped for the Prairie and Quebec regions.

In order to enable the public to more easily access NEB information, a newly hired webmaster reviewed the NEB's Internet site, in consultation with all business interests at the NEB. The website was then redesigned following Government of Canada requirements and is expected to be launched in late May 2007.

2. The NEB pursues participant funding in support of harmonized processes.

In 2006-2007, the NEB completed a successful pilot for lead agency substitution under the CEA Act for the Brunswick Pipeline environmental assessment. The ability to administer participant funding for such harmonized processes would enable effective and viable full substitution for the NEB.

Presently, funding for participation is available only for landowners participating in detailed route hearings, under section 39 of the NEB Act. Funding for participation is not available for project assessments under Part III (construction and operation of pipelines) and Part IV (tolls and tariffs) of the NEB Act. Public participants in federal

environmental assessments (panel reviews, comprehensive studies) are entitled to participant funding through the CEA Agency.

In 2006-2007, the NEB evaluated options for participant funding and due to concurrent activities, decided not to produce a regulatory submission in this year. The NEB is continuing to work toward participant funding through a longer term approach which may involve legislative change.

2.3.5 Goal 5

The NEB delivers quality outcomes through innovative leadership and effective processes.

The purpose of Goal 5 is to emphasize the importance of leadership and management accountabilities in order to support the creation and sustainability of a high-0performance organization that delivers on its commitments through sound business management and effective decision making.

In order to sustain its reputation as an efficient and effective regulatory agency and to better serve its stakeholders, the NEB continued the re-organization of its corporate structure. This past year within the Integrated Solutions Business Unit (IS BU) six teams were reduced to four. The Desktop and Network Services Team was amalgamated with Information Systems to form the Business Technology Team. Supply Management was amalgamated with the Finance Team to form Finance, Facilities and Procurement Services.

Due to the size and variability in the IS BU a Deputy Business Leader position has been created to oversee the daily operation of the unit while also assuming responsibility for developing and maintaining integrated business continuity and security strategies.

The establishment of a Strategic Resources Advisor position has been instrumental in re-orienting the NEB business planning cycle and allowing the organization to focus on the continuing challenges inherent in increasingly limited staff and financial resources.

Performance Measures and Results

In order to evaluate the success of objectives to meet Goal 5, the NEB used the following performance measures:

- Evidence that the Board's processes are efficient and effective.
- Employee satisfaction.
- Per capita cost of regulation.
- Progress against planned activities.

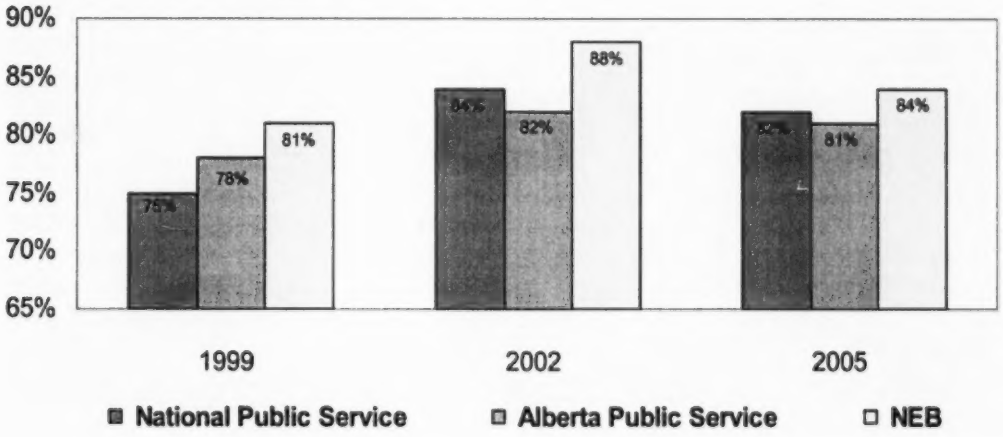
Evidence that the Board's processes are efficient and effective

The NEB is committed to demonstrating excellence in all aspects of its work. In addition to following the Government of Canada's management direction for an accountable government that is responsive to the needs of Canadians, the NEB invests in its people, processes and systems needed to improve results. The NEB focuses on supporting career growth through development plans, succession planning, mentoring and other opportunities. In particular, the NEB's leadership development program helps leaders and potential leaders develop their skills through training programs offered by the acclaimed Banff Centre. These courses support the growth of strategic, personal and team leadership skills.

Employee satisfaction

In 2005-2006 the NEB participated in an Employee Opinion Survey. Results indicated an 84 percent rate of satisfaction at the NEB (Figure 9). In 2006-2007, the Board built on that survey by establishing an Advisory Project Working Group to review the results and analyze the responses from the 2005 survey. While 84 percent of employees said the NEB is a good place to work, a number of areas for improvement were identified. Once the results were examined, the working group made 25 recommendations related to workplace enhancements, communications and relationships. The action required to address these recommendations is ongoing.

Figure 9: Employee Satisfaction

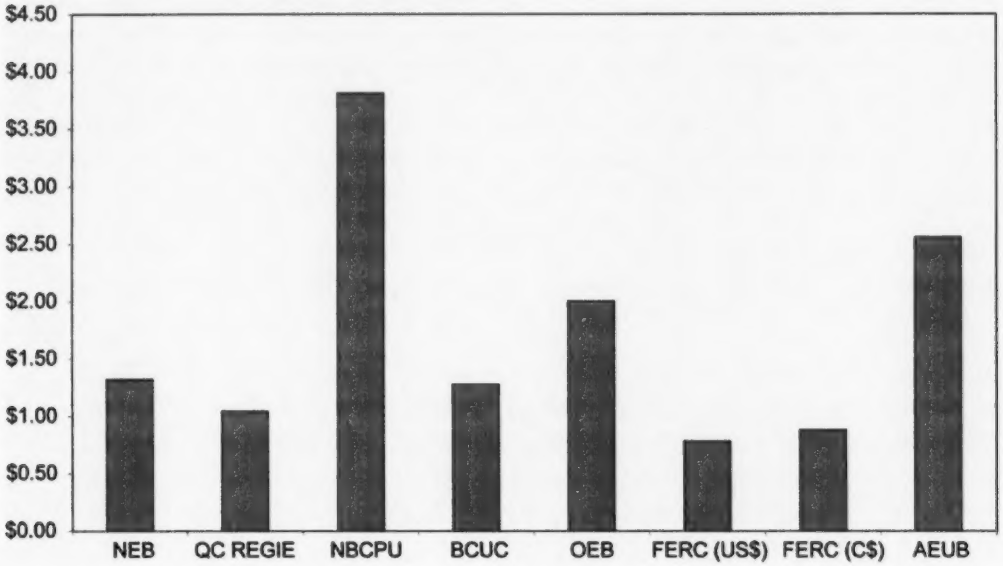


Per capita cost of regulation

The per capita cost of regulation measure continues to compare the annual operating cost of seven different regulators (five provincial and two federal) on a per capita of population served (Figure 10). The comparison provides a relative measure of overall efficiency for the regulators and provides the NEB with information to evaluate its own performance relative to similar regulatory organizations. Costs not related to provincial

utility regulation, such as for auto insurance regulation, have been excluded for this comparison.

Figure 10: Per Capita Cost of Regulation



Progress against planned activities

The NEB tracks the progress of major improvement actions (for all goals) that impact the total organization's effectiveness, efficiency and productivity. Of the 23 major actions identified for 2006-2007, 13 were completed (56 percent), nine multi-year actions continue in progress (39 percent) and one action has been reviewed and re-chartered as a new multi-year activity (5 percent). In addition to the major actions, five multi-year corporate projects are ongoing. Regular monitoring and evaluation efforts, such as tracking best practices and conducting reviews, support overall improvement in organizational performance.

Program and Results on Objectives of 2006-2007

The NEB identified three objectives for Goal 5 in its 2006-2007 RPP. These objectives and the results achieved are discussed below.

1. The NEB has the necessary capacity to fulfill its mandate.

In the 15 years since moving from Ottawa to Calgary the NEB has never encountered a job market as tight as the one experienced in 2006-2007. Escalating skill shortages and corresponding hikes in wages, benefits and perequisites impacted the NEB's ability to carry out its mandate. The NEB's annual attrition rate has more than doubled from 7 percent in 2003 to 14.5 percent in 2006. More than half of these departures were fully trained, experienced employees drawn from the ranks of our professional engineers,

inspectors, environmental specialists and market analysts. In Calgary's current hot job market many of these professionals are in high demand and will remain so for the foreseeable future.

The NEB continues to address challenges associated with recruiting and retaining staff. In December 2006 the Board introduced a plan for attracting and retaining staff that includes a market-based allowance for employees working in positions directly related to the energy industry and a pilot pay-for-performance program for all employees.

During the period under review, the NEB continued the development of the Project Management Office (PMO) which provides business support for effective, efficient project management within the NEB. In 2006-2007, the PMO introduced tools and templates to help project managers identify and manage challenges throughout a project's life cycle. The PMO also developed a training strategy and initiated a "community of practice" to assist project managers in improving their knowledge and sharing best practices.

A "community of practice" is an informal, discipline-focused network whose members meet regularly to share information and knowledge, work collaboratively on solutions to challenges and learn from one another. At the NEB, a number of active and productive communities focus on topics ranging from sustainable development and leadership to resources for our francophone community.

Training is not only provided to our leadership team but is available to everyone at the NEB. In the last year NEB employees spent more than 14,000 hours in learning and development and learning activities ranging from language skills to seminars in Aboriginal awareness and courses in pipeline corrosion. Staff also access campus-direct, E-learning through the Canada School for Public Service, which provides over 155 online courses free of charge.

2. The NEB lives a results-based culture of excellence.

Throughout 2006-2007 the NEB continued to foster strategies and workplace practices that support and encourage our people in their efforts to achieve the highest possible standards of performance. We do this through innovative leadership, sound business management and effective decision-making processes that create an environment where employees have the skills, resources and motivation they need to deliver on their commitments and carry out our mandate.

The Board uses a forward-looking human resources strategy designed to attract and retain people with specific skills and experience. This initiative addresses priorities such as recruiting, leadership development, employee engagement, performance management, staffing levels, training effectiveness and succession planning.

A great amount of effort has been expended and will continue to be expended in the development and ongoing implementation of the NEB's RESULTS Performance Measurement System. This effort is seen as encouraging enhanced career development

discussions, formulation of development plans and staff understanding of succession planning.

The initial development of the NEB Learning Framework has taken place. This initiative will provide enhanced developmental opportunities for a broader range of staff. It will allow for the implementation of the "leader-in-training" program which is an expansion of the leadership training program to include group leaders and those with leadership potential.

The existing NEB Leader's Forum has been used this period to determine how to increase the application and consistency of flexible work arrangements and apply a decision model that favours work-life balance while respecting the collective agreement.

3. The NEB has a fully operational quality management system.

The NEB's implementation of its QMS continued in 2006-2007. By April 2007 the NEB had implemented some 60 percent of the requirements associated with adopting a quality system as a framework for:

- Effective, efficient execution of Board processes;
- Ensuring stakeholder needs are met;
- Enabling process consistency where required, and flexibility where possible;
- Encouraging continual improvement.

With the *ISO 9001:2000 Quality Management Systems – Requirement* as a guide, the NEB is using both internal and external audits to track progress and ensure the QMS is effective. We expect to complete implementation by April 2008.

Section III : Supplementary Information

3.1 Organizational Information

The Board is structured into five business units reflecting major areas of responsibility: Applications, Operations, Commodities, Planning, Policy and Coordination and Integrated Solutions. In addition, the Executive Office includes the specialized services of Legal Services and Regulatory Services.

Applications

The Applications Business Unit is responsible for processing and assessing most regulatory applications submitted under the NEB Act, including facilities and tolls and tariffs applications and construction and operation of international and interprovincial electric power lines. The Applications Business Unit is also responsible for other matters such as the financial surveillance and financial audits of companies under the Board's jurisdiction and for addressing landowner concerns.

Operations

The Operations Business Unit is accountable for safety and environmental matters pertaining to facilities under the NEB Act, the COGO Act and the CPR Act. It conducts safety and environmental inspections and audits; investigates incidents; monitors emergency response procedures; regulates the exploration, development and production of hydrocarbon resources in non-accord Frontier lands; and develops related safety and environment regulations and guidelines.

Commodities

The Commodities Business Unit is responsible for energy industry and marketplace surveillance, including the outlook for the demand and supply of energy commodities in Canada, updating guidelines and developing regulations relating to energy exports as prescribed by Part VI of the NEB Act. It is also responsible for assessing and processing applications for oil, natural gas and electricity exports.

Planning, Policy and Coordination

The Planning, Policy and Coordination Business Unit is responsible for developing the NEB's long-term regulatory framework and regulatory tools and for organization-wide planning and coordination. This includes providing communication, engagement, appropriate dispute resolution and technical excellence (through its professional leader and knowledge network services) services to the Board.

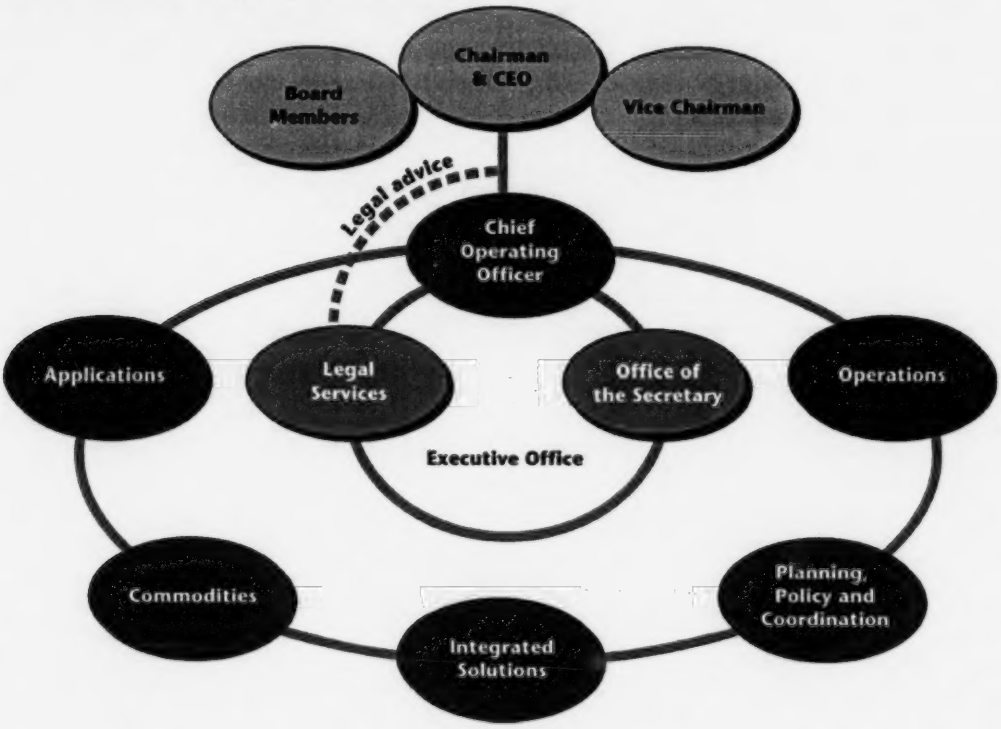
Integrated Solutions

Integrated Solutions is responsible for developing, implementing and supporting strategies and solutions to enhance business outcomes. This includes Board-wide computer systems and services, materiel and facilities management, contracting, library services, corporate records management, financial management, human resource management, translation and document design and production.

Executive Office

The Executive Office is responsible for the Board's overall capability and readiness to meet strategic and operational requirements, including providing legal advice for regulatory and management purposes,[6] administering hearings and providing regulatory support.

Figure 11: NEB Organizational Structure



6 Legal Services is accountable to the Chairman and Board Members for the provision of legal advice. It is accountable to the Chief Operating Officer for its operations and administrative matters.

3.2 Performance Measures Summary

Strategic Outcome	Goals	Measures	Further information
Safety, security, environmental protection and economic benefits through regulation of pipelines, power lines, trade and energy development within NEB jurisdiction.	Goal 1 – NEB- regulated facilities and activities are safe and secure and are perceived to be so.	Number of fatalities: 0 pipeline related; 1 electricity facility related Number of hydrocarbon pipeline ruptures per year: 0 Number of pipeline incidents per year: 55 COGO Act disabling injuries: 2 COGO Act hazardous occurrences: 25 Number and significance of security infractions: 0	Section 2.3.1
	Goal 2 – NEB-regulated facilities are built and operated in a manner that protects the environment and respects the rights of those affected.	Percent of environmental conditions that achieved their desired end results: 100% in calendar year 2006 Number of major liquid hydrocarbon releases into the environment: 1 major release in calendar year 2006	Section 2.3.2
	Goal 3 – Canadians benefit from efficient infrastructure and markets.	Evidence that Canadian energy and transportation markets are working well Evidence that advice and information products benefit Canadians: Web visits doubled; media hits up 131% Evidence that the Board's regulatory processes are efficient and effective: Service standards for non-hearing s.58 applications met	Section 2.3.3
	Goal 4 – The NEB fulfills its mandate with the benefit of effective public engagement.	Stakeholders are involved in the Board's public processes: stakeholder satisfaction approximately 86%	Section 2.3.4
	Goal 5 – The NEB delivers quality outcomes through innovative leadership and effective processes.	Employee satisfaction: 84% (National EOS 2005) Per capita cost of regulation: $1.32 for calendar year 2006	Section 2.3.5

3.3 Financial Information

Table 7: Comparison of Planned Spending and Full-time Equivalents

Departmental Planned versus Actual Spending ($ millions)						
	2004-05 Actual	2005-06 Actual	2006-2007			
			Main Estimates	Planned Spending	Total Authorities	Actual Spending
Energy Regulation and Advice	38.1	39.8	37.9	37.9	43.4	44.5
Total	38.1	39.8	37.9	37.9	43.4	44.5
Less: Non-respendable revenue	42.8	38.6	39.4	39.4	39.4	35.6
Plus: Cost of services received without charge	5.6	5.6	5.8	5.8	5.8	6.3
Total Departmental Spending	0.9	6.8	4.3	4.3	9.8	15.2

Full Time Equivalents	299.6	300	305.1	305.26

Table 8: Voted and Statutory Items

Financial Requirements by Authority ($ millions)					
Vote or Statutory Item	Truncated Vote or Statutory Wording	2006-2007			
		Main Estimates	Planned Spending	Total Authorities	Actual Spending
30	Program Expenditures	33.0	33.0	38.5	39.6
(S)	Contributions to employee benefit plans	4.9	4.9	4.9	4.9
	Total	**37.9**	**37.9**	**43.4**	**44.5**

Table 9: Net Cost of Department

Net Cost of Department 2006-2007	($ millions)
Total Actual Spending	44.5
Plus: Services Received without Charge	
Accommodation provided by Public Works and Government Services Canada (PWGSC)	3.9
Contributions covering employers' share of employees' insurance premiums and expenditures paid by TBS (excluding revolving funds)	2.3
Worker's compensation coverage, cost recovery audit costs and miscellaneous costs provided by other departments	0.1
Sub-total	**6.3**
Less: Non-respendable Revenue	35.6
2006-2007 Net Cost of Department	**15.2**

Table 10: Sources of Non-Respendable Revenue

Non-Respendable Revenue ($ millions)						
			2006-2007			
	Actual 2004-05	Actual 2005-06	Main Estimates	Planned Revenue	Total Authorities	Actual
Energy Regulation and Advice	42.8	38.6	39.4	39.4	39.4	35.6
Total Non-respendable Revenue	**42.8**	**38.6**	**39.4**	**39.4**	**39.4**	**39.4**

The NEB is an independent regulatory agency, established in 1959 under the NEB Act. The NEB Act authorizes the Board to charge those companies it regulates costs attributable to the NEB's operations in carrying out its related responsibilities.

3.4 External Fees and Service Standards

NEB Service Standards identify targets for key aspects of service delivery. The Service Standards and annual results can be found on the NEB website at http://www.neb-one.gc.ca under "Who we are & our governance".

Table 11: Energy Regulation and Advice – *National Energy Board Act*

Fee Activity	Description	Amount
Energy Regulation and Advice	The NEB regulates in the public interest those areas of the oil, gas, non-hydrocarbon and electricity industries relating to: • construction and operation of pipelines; • construction and operation of international and designated interprovincial power lines; • transportation, tolls and tariffs of pipelines; • exports of oil, gas and electricity and imports of oil and gas; and • oil and gas activities on Frontier lands not subject to a federal/provincial accord.	
Fee Type	Regulatory (R)	
Fee Setting Authority	The NEB External Charging is in accordance with sub-section 24.1 (1) of the NEB Act. As of 1 January 1991 under the NEB *Cost Recovery Regulations*, the Board recovers the cost of its operations from the majority of the companies that it regulates. The Board has the delegated authority to determine what costs will be excluded from program expenditures for cost recovery purposes.	
Date Last Modified	NEB *Cost Recovery Regulations* last amended on 6 November 2002	
2006-2007 Forecast Revenue ($ millions)	Regulatory	39.4
2006-2007 Actual Revenue ($ millions)	Regulatory	35.6
Estimated Full Cost ($ millions)	Regulatory a) NEB Costs = 40.2 b) Other Departments Costs = 5.7	45.9

Fee Activity	Description		Amount
Forecast Revenue ($ millions)	Sub-Total	2007 - 08	39.6
		2008 - 09	39.6
		2009 – 10	38.3
	Total		**117.5**
Estimated Full Cost ($ millions)	Sub-Total	2007 - 08	39.7
		2008 - 09	39.7
		2009 – 10	39.7
	Total		**119.1**

Table 11.1: Service Standards Report

Service Standards	Service Standard Results 2006-2007[7]
Reasons for Decision • 80% of Reasons for Decision completed within 12 weeks following a public hearing	**Reasons for Decision** Five hearings: 80% completed in 12 weeks
Export/import authorizations • **Oil and/or petroleum orders processed:** 100% in 2 working days • **NGL orders processed:** 100% in 2 working days • **Gas import and export orders processed:** 100% in 2 working days **Electricity export permits:** 80% in 75 days	**Export/import authorizations** **Oil and/or petroleum orders processed:** 111 received; 100% completed in 2 days **NGL orders processed:** 115 received; 100% completed in 2 days **Gas import and export orders processed:** 164 received; 100% completed in 2 days **Electricity export permits:** 5 received; 40% completed in 75 days
Landowner Complaints • **Respond with initial course of action:** 100% within 10 calendar days • **Resolve the complaint:** 80% within 60 calendar days	**Landowner Complaints** **Respond with initial course of action:** 31 files; 100% response within 10 calendar days **Resolve the complaint:** 24 files; 90% of files were closed within 60 calendar days
Onshore pipeline regulation (OPR) audits • 80% of draft OPR reports sent to the audited company within 8 weeks of completing field work • 80% of Final OPR reports sent to the audited company within 8 weeks of receiving the company's comments on the draft report	**Onshore pipeline regulation audits** 5 received; 80% sent to the audited company within 8 weeks 5 received; 60% sent to the audited company within 8 weeks
Financial audits • 80% of draft financial reports sent to the audited company within 8 weeks of completing field work • 80% of final financial audit reports sent to company within 3 weeks of receiving the audited company's comments on draft financial report	**Financial audits** 3 audits conducted; both service standards met (100% of reports sent within specified period)

7 The Board met all of its service standards except two. The Board's target of sending the final OPR audit report to the company was not met due to a process transition that occurred throughout the year. This transition will result in improved service, including a reduced turnaround time. Therefore, the service standard will be changed. The Board's target of completing 80 percent of electricity export within 75 days was not achieved due to the nature of the exports. The service standard was reviewed and revised and will be reported on in the future and support continual improvement efforts.

Service Standards	Service Standard Results 2006-2007[7]
Non-hearing Section 58 application cycle times • **Category A** (complexity of issues considered minor): 80% of decisions released in 40 calendar days • **Category B** (complexity of issues considered moderate): 80% of decisions released in 90 calendar days • **Category C** (complexity of issues considered major): 80% of decisions released in 120 calendar days	**Non-hearing Section 58 application cycle times** **Category A:** 6 received: 83% in 40 days **Category B:** 15 received: 87% in 90 days **Category C:** 0 received

Consultation

When the NEB Cost Recovery Liaison Committee (CRLC) was established in July 1990, the composition of the committee ensured that there was representation from each of the industry's major associations and companies. The CRLC was established for ongoing consultation and communication regarding cost recovery methodology, regulations and new initiatives affecting cost recovery processes. In addition, the NEB tables and discusses its financial statements and anticipated expenditures with the CRLC. The NEB's performance results are presented to the CRLC at regularly scheduled meetings.

Dispute Management

The NEB has a Dispute Management Process in accordance with Treasury Board External Charging Policy, to ensure that disputes and issues raised by stakeholders related to external charging are addressed and resolved fairly and efficiently. In this process, there are three hierarchical levels to resolve a dispute. The first level of resolution rests with the Chair of the CRLC. If the dispute is unresolved at the first level, the issue will be passed on to the second level where a committee is formed. Where the first level and the second level fail to result in a resolution, the matter will be referred to the Chairman of the Board. Each level is given 90 days from the date of receipt of notification or escalation to resolve the dispute.

The disputes and issues may include but will not be limited to:

- failure to meet the agreed standard of services or products;
- negotiated charges perceived to be unreasonable;
- issues regarding specifications and descriptions of the required services or products;
- cancellation of the negotiated services or products; or
- failure to meet deadlines.

Table 12: Energy Regulation and Advice – *Canada Oil and Gas Operations Act*

Fee Activity	Description	Amount
Energy Regulation and Advice – *Canada Oil and Gas Operations Act* Under the COGO Act, the NEB regulates oil and gas activities on Frontier lands not subject to a federal/provincial accord.		
Fee Type	Regulatory (R)	
Fee Setting Authority	*Canada Oil and Gas Operations Act*	
Date Last Modified	1992	
2006-2007 Forecast Revenue	Regulatory	900
2006-2007 Actual Revenue	Regulatory	750
Estimated Full Cost	Regulatory a) NEB Costs = 4,300,000 b) Other Departments Costs = 600,000	4,900,000
Forecast Revenue	Sub-Total 2007 - 08 2008 - 09 2009 – 10 **Total**	900 900 900 **2,700**
Estimated Full Cost	Sub-Total 2007 - 08 2008 - 09 2009 – 10 **Total**	4,300,000 4,300,000 4,300,000 **12,900,000**

Table 12.1: Service Standard Report

Service Standards	Service Standard Results 2006-2007
COGO Act applications **Well drilling applications** • Decisions rendered within 21 calendar days of receiving a complete application **Geological and geophysical applications** • Decisions rendered within 30 calendar days of receiving a complete application	**COGO Act applications** **Well drilling applications** 26 received: 100% of decisions rendered within 21 calendar days **Geological and geophysical applications** 20 received: 100% of decisions rendered within 30 days
CPR Act applications • Decision for Significant Discovery • Decision for Commercial Discovery Applications on Frontier lands 80% of decisions for both rendered within 90 calendar days	**CPR Act applications** 3 received: 100% of decisions rendered within 90 calendar days 0 received

Consultation

The NEB's COGO Act and CPR Act service standards are reviewed with stakeholders on an opportunity basis at meetings with companies, organizations (such as the Canadian Association of Petroleum Producers), and at other venues (such as the Annual Oil and Gas Forum).

Table 13: Service Standard for *Access to Information Act*

Fee Activity	Description	Amount
Access to Information Act Fees charged for the processing of access requests filed under the *Access to Information Act* (ATIA)		
Fee Type	Other products and services (O)	
Fee Setting Authority	*Access to Information Act*	
Date Last Modified	1992	
2006-2007 Forecast Revenue	Other Products and Services	100
2006-2007 Actual Revenue	Other Products and Services	25
Estimated Full Cost	Other products and Services a) NEB Costs = 32,805 b) Other Departments Costs = 0	32,805
Forecast Revenue	Sub-Total 2007 - 08 2008 - 09 2009 – 10 **Total**	100 100 100 **300**
Estimated Full Cost	Sub-Total 2007 - 08 2008 - 09 2009 – 10 **Total**	35,000 35,000 35,000 **105,000**

Table 13.1: Service Standard Report

Service Standards	Service Standard Results
Responding to Access to Information requests • Response provided within 30 days following receipt of request; the response time may be extended pursuant to section 9 of the ATIA. Notice of extension to be sent within 30 days after receipt of request.	**Responding to Access to Information requests** • 2 received: 100% of requests completed in 30 days or notice of extension sent within 30 days; 1 request was received then later abandoned by the party who made the request

3.5 Department's Regulatory Plan

Regulatory Instrument	Expected Results and Progress
National Energy Board Damage Prevention Regulations	Less prescriptive, goal oriented regulations for NEB regulated facilities to more effectively address safety in the proximity of pipelines. Will replace the *National Energy Board Pipeline Crossings Regulations, Parts I and II.* These regulations are being reviewed by the Department of Justice in collaboration with the Board during this fiscal year.
National Energy Board Onshore Pipeline Regulations (OPR-99) and *National Energy Board Processing Plant Regulations*	Revise regulations to include concept of decommissioning. Ministerial approval has been received to proceed to publication in *Canada Gazette Part I.*

Regulatory Instrument	Expected Results and Progress
National Energy Board Cost Recovery Regulations	Amend regulations to: respond to a request from the electricity industry and to align billing with the NEB's fiscal year. These regulations are being reviewed by the Department of Justice during this fiscal year.
Canada Oil and Gas Diving Regulations; Newfoundland Offshore Area Petroleum Diving Regulations; and Nova Scotia Offshore Area Petroleum Diving Regulations	Less prescriptive, goal-oriented regulations for activities under the *Canada Oil and Gas Operations Act* and under the Accord implementation acts[8]. Updated and harmonized regulations for diving activities in support of oil and gas programs in Frontier lands. These regulations were being reviewed by Department of Justice during this fiscal year.
Canada Oil and Gas Drilling and Production Regulations; Newfoundland Offshore Area Oil and Gas Drilling and Production Regulations; and Nova Scotia Offshore Area Oil and Gas Drilling and Production Regulations	A goal-oriented regulation resulting from the amalgamation and updating of the current *Drilling Regulations* and *Production & Conservation Regulations*. Three mirror versions are being created for the three Frontier and offshore jurisdictions. Draft *Drilling and Production Regulations* were released to stakeholders in early April 2005 for a comment period ending 17 August 2007. Anticipated completion of the draft regulations and beginning of the government approval processes is fall 2008. Target timing for promulgation is Q3 2008. Draft guidance notes for the regulations are in preparation with the same target completion date.
Regulations made under the *Canada Oil and Gas Operations Act*: • *Production and Conservation Regulations* • *Certificate of Fitness Regulations* • *Geophysical Operations Regulations* • *Installations Regulations*	Incorporation of recommendations made by the Standing Joint Committee for the Scrutiny of Regulations.

3.6 Financial Statements

Statement of Management Responsibility

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended 31 March 2007 and all information contained in these statements rests with departmental management. These financial statements have been prepared by management in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment and gives due consideration to materiality. To fulfil its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the department's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in the

8 Accord implementation acts refers to the *Canada-Newfoundland Atlantic Accord Implementation Act* and the *Canada-Nova Scotia Offshore Petroleum Accord Implementation Act*.

department's *Departmental Performance Report* is consistent with these financial statements.

Management maintains a system of financial management and internal control designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are in accordance with the *Financial Administration Act,* are executed in accordance with prescribed regulations, within Parliamentary authorities, and are properly recorded to maintain accountability of Government funds. Management also seeks to ensure the objectivity and integrity of data in its financial statements by careful selection, training and development of qualified staff; by organizational arrangements that provide appropriate divisions of responsibility; and, by communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout the department.

The financial statements of the department have not been audited for the 31 March 2007 fiscal year. However, the National Energy Board also produces financial statements on a calendar year basis that are audited by the Office of the Auditor General.

National Energy Board Statement of Operations (Unaudited) For the Year Ended March 31 (In thousands of dollars)		
	2007	**2006**
REVENUES		
Regulatory fees	35,630	38,617
Miscellaneous revenue	5	4
	35,635	**38,621**
EXPENSES		
Salaries and employee benefits	36,344	32,363
Accommodations	4,658	4,538
Professional and special services	4,518	4,462
Travel	2,800	2,341
Amortization	821	634
Repairs and maintenance	515	219
Acquisition machinery and equipment	387	
Supplies	375	448
Communications	310	203
Other	109	216
Total operating expenses	**50,837**	**45,424**
Net cost of operations	**(15,202)**	**(6,803)**
The accompanying notes form an integral part of these financial statements.		

National Energy Board Statement of Financial Position (Unaudited) At March 31 (in thousands of dollars)		
	2007	2006
ASSETS		
Financial assets		
Accounts receivable and advances (Note 4)	9,651	8,634
Total financial assets	**9,651**	**8,634**
Non-financial assets		
Prepaid expenses	210	353
Tangible capital assets (Note 5)	2,294	2,508
Total non-financial assets	**2,504**	**2,861**
TOTAL	**12,155**	**11,495**
LIABILITIES AND EQUITY OF CANADA		
Liabilities		
Accounts payable and accrued liabilities	4,599	2,560
Vacation pay and compensatory leave	1,390	1,390
Employee severance benefits (Note 6)	5,611	5,191
Total liabilities	**11,600**	**9,141**
Equity of Canada	**555**	**2,355**
TOTAL	**12,155**	**11,495**
Contingent liabilities (Note 7)		
Contractual obligations (Note 8)		
The accompanying notes form an integral part of these financial statements.		

National Energy Board Statement of Equity of Canada (Unaudited) For the Year Ended March 31 (in thousands of dollars)		
	2007	2006
Equity of Canada, beginning of year	2,355	3,210
Net cost of operations	(15,202)	(6,803)
Current year appropriations used (Note 3)	43,973	39,785
Revenue not available for spending	(35,635)	(38,621)
Change in net position in the Consolidated Revenue Fund (Note 3)	(1,164)	(1,185)
Services received without charge from other government departments (Note 9)	6,228	5,969
Equity of Canada, end of year	**555**	**2,355**
The accompanying notes form an integral part of these financial statements.		

National Energy Board Statement of Cash Flow (Unaudited) For the Year Ended March 31 (in thousands of dollars)		
	2007	2006
Operating activities		
Cash received from:		
Regulatory and other fees	34,588	41,011
Cash paid for:		
Salaries and employee benefits	(31,273)	(30,370)
Professional services	(4,530)	(4,714)
Travel	(2,788)	(2,491)
Machinery & equipment	(430)	-
Rentals	(740)	(615)
Supplies	(375)	(448)
Other	(309)	(425)
Repairs & maintenance	(515)	(405)
Communications	(310)	(353)
Cash provided by operating activities	**(6,682)**	**1,190**
Capital investment activities		
Acquisitions of tangible capital assets	(492)	(1,170)
Financing activities		
Net cash provided by Government of Canada	**(7,174)**	20
The accompanying notes form an integral part of these financial statements.		

Notes to Financial Statements

1. Authority and Objectives

The National Energy Board (NEB) is an independent regulatory agency, established in 1959 under the *National Energy Board Act* and is designated as a department and named under Schedule I.1 of the *Financial Administration Act*, reporting to Parliament through the Minister of Natural Resources.

The NEB regulates the following specific aspects of the energy industry:

- the construction and operation of international and interprovincial pipelines;
- the construction and operation of international and designated interprovincial power lines;
- traffic, tolls and tariffs of international and interprovincial pipelines;
- exports of oil, gas and electricity and imports of gas and oil; and
- oil and gas activities on Frontier lands not subject to a federal/provincial accord.

Other responsibilities of the NEB include providing advice to the Minister of Natural Resources Canada on the development and use of energy resources.

NEB's corporate purpose is to promote safety, environmental protection and economic efficiency in the Canadian public interest within the mandate set by Parliament in the regulation of pipelines, energy development and trade. This principle guides the NEB in carrying out and interpreting its regulatory responsibilities. The companies that are regulated by the Board create wealth for Canadians through the transport of oil, natural gas and natural gas liquids, and through the export of hydrocarbons and electricity. As a regulatory agency, the Board's role is to help create a framework which allows these economic activities to occur when they are in the public interest.

The NEB operates in a manner similar to a civil court. For major applications and inquiries, the Board holds public hearings at which applicants and interested parties have full rights of participation.

The NEB has the authority to charge those companies it regulates, in accordance with sub-section 24.1(1) of the NEB Act, the total costs attributable to the NEB's operations in carrying out its related responsibilities.

Under the *National Energy Board Cost Recovery Regulations* (the *Regulations*) approved by the Treasury Board, the National Energy Board recovers from the companies it regulates the cost of its operations, effective 1 January 1991. It has the delegated authority to determine what costs will be excluded from program expenditures for cost recovery purposes.

The NEB operates within the Consolidated Revenue Fund (CRF). The CRF is administered by the Receiver General for Canada. All cash received by the NEB is deposited to the CRF and all cash disbursements made by the NEB are paid from the CRF.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

Significant accounting policies are as follows:

a) Parliamentary appropriations – the Department is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to the department do not parallel financial reporting according to generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the statement of operations and the statement of financial position are not necessarily the same as those provided through appropriations from Parliament. Note 3 provides a high-level reconciliation between the bases of reporting.

b) Net Cash Provided by Government – The department operates within the CRF, which is administered by the Receiver General for Canada. All cash received by the department is deposited to the CRF and all cash disbursements made by the

department are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the federal government.

c) Change in net position in the CRF is the difference between the net cash provided by Government and appropriations used in a year, excluding the amount of non-respendable revenue recorded by the department. It results from timing differences between when a transaction affects appropriations and when it is processed through the CRF.

d) Revenues:

- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- Other revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues.

e) Expenses – Expenses are recorded on the accrual basis:

- Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.
- Services provided without charge by other government departments for accommodation, the employer's contribution to the health and dental insurance plans and legal services are recorded as operating expenses at their estimated cost.

f) Employee future benefits

i) Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multi-employer plan administered by the Government of Canada. The department's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Current legislation does not require the department to make contributions for any actuarial deficiencies of the Plan.

ii) Severance benefits: Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

g) Accounts receivables are stated at amounts expected to be ultimately realized; a provision is made for receivables where recovery is considered uncertain.

h) Contingent liabilities – Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a

reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

i) Foreign currency transactions – Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the rate of exchange in effect on 31 March 2007.

j) Tangible capital assets – All tangible capital assets and leasehold improvements having an initial cost of $10,000 or more are recorded at their acquisition cost. The department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian Reserves and museum collections.

Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset as follows:

Asset class	Amortization period
Machinery and equipment (Furniture)	10 years
Machinery and equipment (Audio visual equipment)	5 years
Informatics hardware (PCs and accessories)	3 years
Informatics hardware (Computer servers & accessories)	5 years
Informatics software (Commercial software)	2 years
Informatics software (In-house developed software)	5 years
Vehicles	5 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement
Assets under construction/development	Once in service, in accordance with asset type
Leased tangible capital assets	In accordance with asset type if ownership is likely to transfer to the department; otherwise, over the lease term

k) Measurement uncertainty – The preparation of these financial statements in accordance with Treasury Board accounting policies, which are consistent with Canadian generally accepted accounting principles for the public sector, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, the liability for employee severance benefits and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

3. Parliamentary Appropriations

The Department receives most of its funding through annual Parliamentary appropriations. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary appropriations in prior, current or future years. Accordingly, the Department has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

(a) Reconciliation of net cost of operations to current year appropriations used:		
(in thousands of dollars)	2007	2006
Net cost of operations	15,202	6,803
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Services provided without charge	(6,228)	(5,969)
Amortization of tangible capital assets	(822)	(634)
Revenue not available for spending	35,635	38,621
(Loss) gain on disposal and write-down of tangible capital assets	-	-
Vacation pay and compensatory leave		(45)
Employee Severance Benefits	(420)	(146)
Other	(528)	29
	42,839	38,659
Adjustments for items not affecting net cost of operations but affecting appropriations		
Add (Less): Acquisitions of tangible capital assets	492	387
Prepaid expenses	642	739
Current year appropriations used	**43,973**	**39,785**

(b) Appropriations provided and used		
(in thousands of dollars)	2007	2006
Vote 30 – Operating expenditures	38,157	33,341
Vote 30a – Operating expenditures	-	-
Transfer from TB Vote 15	102	-
Governor General's special warrants	-	2,242
Statutory amounts	4,890	4,639
Less:		
Lapsed appropriations: Operating	-	(437)
Operating overexpenditure	824	-
Current year appropriations used	**43,973**	**39,785**

c) Reconciliation of net cash provided by Government to current year appropriations used		
(in thousands of dollars)	2007	2006
Net cash provided by Government	7,174	(20)
Revenue not available for spending	35,635	38,621
Change in net position in the Consolidated Revenue Fund		
Variation in accounts receivable and advances	(1,017)	2,353
Variation in accounts payable and accrued liabilities	2,460	(955)
Other adjustments	(279)	(213)
Subtotal	**1,164**	**1,185**
Current year appropriations used	**43,973**	**39,785**

4. Accounts Receivable and Advances

The following table presents details of accounts receivable and advances:

(in thousands of dollars)	2007	2006
Receivables from other Federal Government departments and agencies	261	371
Receivables from external parties	12,311	11,144
Employee advances	(5)	35
	12,567	11,550
Less: allowance for doubtful accounts on external receivables	(2,916)	(2,916)
Total	**9,651**	**8,634**

5. Tangible Capital Assets

(in thousands of dollars)										
	Cost				Accumulated amortization					
Capital asset class	Opening balance	Acquis.	Disposals and write-offs	Closing balance	Opening balance	Amort.	Disposals and write-offs	Closing balance	2007 Net book value	2006 Net book value
Informatics (Hardware)	1,950	40	-	1,990	1,449	197	-	1,646	344	501
Informatics Software	1,975	-	-	1,975	710	409	-	1,119	856	1,265
Machinery and equipment	132	-	-	132	123	6	-	129	3	9
Other mach. & equip (incl. furniture)	114	66	-	180	31	11	-	42	138	83
Vehicles	25	-	-	25	15	5	-	20	5	10
Leasehold improvements	513	386	-	899	150	194	-	344	555	363
Assets under construction/ development	278	115	-	393	-	-	-	-	278	662
Total	**4,987**	**607**	**-**	**5,594**	**2,478**	**822**	**-**	**3,300**	**2,294**	**1,972**
Amortization expense for the year ended March 31, 2007 is $821,332 (2006 - $633,932).										

6. Employee Benefits

a) Pension benefits: The department's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of

Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and the department contribute to the cost of the Plan. The 2006-07 expense amounts to $3,477,641 ($3,432,879 in 2005-06), which represents approximately 2.6 times the contributions by employees.

The department's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

b) Severance benefits: The department provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows:

(in thousands of dollars)	2007	2006
Accrued benefit obligation, beginning of year		5,045
Expense for the year		1,299
Benefits paid during the year		(1,153)
Accrued benefit obligation, end of year		5,191

7. Contingent Liabilities

Claims and Litigation

Claims have been made against the department in the normal course of operations. Legal proceedings for claims totalling approximately $60,000 ($35,000 in 2006) were still pending at 31 March 2007. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. The likelihood of these claims being realized cannot be determined so no amount has been accrued in the financial statements.

8. Contractual Obligations

The nature of the department's activities can result in some large multi-year contracts and obligations whereby the department will be obligated to make future payments when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	2008	2009	2010	2011 and thereafter	Total
Vendor contracts	279	160	9	-	**448**
Operating leases	2,629	107	-	-	**2,736**
Total	**2,908**	**267**	**267**	-	**3,184**

9. Related-party transactions

The department is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. The department enters into transactions with these entities in the normal course of business and on normal trade terms. Also, during the year, the department received services which were obtained without charge from other Government departments as presented in part (a).

a) Services provided without charge:

During the year the department received without charge from other departments, accommodation and the employer's contribution to the health and dental insurance plans. These services without charge have been recognized in the department's Statement of Operations as follows:

(in thousands of dollars)	2007	2006
Accommodation	3,917	3,924
Employer's contribution to the health / dental insurance plans	2,311	2,045
Total	**6,228**	**5,969**

The Government has structured some of its administrative activities for efficiency and cost-effectiveness purposes so that one department performs these on behalf of all without charge. The costs of these services, which include payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General, are not included as an expense in the department's Statement of Operations.

b) Payables and receivables outstanding at year-end with related parties:

(in thousands of dollars)	2007	2006
Accounts receivable with other government departments and agencies	261	371
Accounts payable to other government departments and agencies	-	43

c) Administration of programs on behalf of other government departments

The NEB administers the Northern Gas Project Secretariat (NGPS) and Environmental Studies Research Funds (ESRF). NGPS expenses are part of the NEB's appropriation whereas ESRF expenses are not.

The concept of the Northern Gas Project Secretariat was first unveiled in the Cooperation Plan, a document produced by the Northern Pipeline Environmental Impact Assessment and Regulatory Chairs' Committee in June 2002.

This Plan describes the framework that the authorities with environmental impact assessment and regulatory mandates, called the Agencies, will follow to implement coordinated environmental impact assessment and regulatory processes for a proposed major northern gas pipeline project and associated developments. It outlines methods of

cooperation between the Agencies that will avoid duplication of effort and provides clarity and certainty of process for the public, companies and other stakeholders.

The environmental review process commenced with the filing of the *Preliminary Information Package* in June 2003. The regulatory processes commenced with the filing of the five applications for the construction and operation of the Mackenzie Gas Project in October 2004.

The Northern Gas Project Secretariat office was officially opened in December 2003. With offices in Yellowknife and Inuvik, staff at the Project Secretariat will help northerners and interested public effectively participate in the environmental review and regulatory processes.

According to the Treasury Board submission approved on 1 December 2003, the operating costs of NGPS incurred by NEB are recoverable under the *National Energy Board Act* because the Secretariat functions are classified as part of the application process of the Act.

The NEB administers the Environmental Studies Research Funds. These funds are provided by INAC and NRCan. None of the NEB's appropriation is included in these funds. Any unused balances in the ESRF accounts are transferred to the partner departments at year end. ESRF expenses are reflected in the financial statements of INAC and NRCan.

10. Comparative information

Comparative figures have been reclassified to conform to the current year's presentation.

3.7 Regulatory Reporting

The following table presents a summary of NEB Public Hearings from 1 April 2006 to 31 March 2007.

Oral Hearings	Results	Outcomes
Mackenzie Gas Pipeline (MGP) GH-1-2004	Application seeking approval to construct and operate a natural gas pipeline and related facilities through the Mackenzie Valley.	Ongoing process. 40 hearing days held between 1 April 2006 and 31 March 2007.
TMX – Anchor Loop OH-1-2006	Application seeking approval to build and operate a 158 kilometre pipeline loop and other facilities to increase the capacity of the Trans Mountain's TMX Pipelines. Oral hearing held in Calgary on 8-9-10 August 2006. Reasons for Decision (RFD) issued on 26 October 2006.	Conditional approval to build and operate a 158 km pipeline loop and other facilities.

Oral Hearings	Results	Outcomes
Emera Brunswick Pipeline Company Ltd. GH-1-2006	Application seeking approval to build and operate a 145 kilometre, 762 millimetre diameter pipeline from the Canaport™ Liquefied Natural Gas Facility at Mispec Point in Saint John, New Brunswick to a point on the international border near St. Stephen, New Brunswick. Oral hearing held in Saint John, NB between 6-21 November 2006.	Decision pending.
TransCanada PipeLines Limited (TransCanada) and TransCanada Keystone GP Ltd. (Keystone) MH-1-2006	Application seeking approval for the transfer of certain pipeline facilities from TransCanada to Keystone. RFD issued on 9 February 2006.	Sale and purchase of the Facilities from TransCanada to Keystone is approved.
Enbridge Pipelines (Westspur) Inc. (Enbridge) OH-2-2007	Preliminary Information Package filed on 7 September 2006 for the proposed Alida to Cromer Capacity Expansion (ACCE) Project. Hearing scheduled to be held on 11 April 2007.	Ongoing process.
TransCanada Keystone PipeLine GP Limited (Keystone) OH-1-2007	Application to construct and operate the Canadian portion of the Keystone Project – a proposed crude oil line that would run from Alberta to markets in Illinois. Hearing scheduled to begin in Calgary on 4 June 2007.	Ongoing process.
TransCanada PipeLines Limited (TransCanada) RH-1-2006	Application to change the tariff on the Mainline natural gas pipeline Hearing held in Toronto (18-22 September) and in Calgary (27-29 September). RFD issued on 23 November 2006.	TransCanada is directed to file with the Board, two years after natural gas starts to flow under an FT-SN contract, a report on the use of FT-SN and SNB services.
EnCana Corporation GH-2-2006	Applications to develop the Deep Panuke Offshore Natural Gas Project. Hearing held on 27 & 29 November 2006 and 5-9 March 2007.	Ongoing process.
TransCanada PipeLines Limited (TransCanada) RH-1-2007	Application seeking approval of a new receipt point at Gros Cacouna (QC) for the receipt of regasified liquefied natural gas (LNG). Affirmation is also being requested for the tolling methodology that will apply to service from that point. Hearing to be held in Québec City on 16 April 2007.	Ongoing process.

3.8 Parliamentary Committee Recommendations

There were no parliamentary committee reports issued concerning the NEB during the reporting period.

3.9 Evaluations and Reviews

The following evaluations and reviews conducted under the auspices of the NEB Audit and Evaluation Committee were completed in 2006-2007:

- Audit of Accounting and Control of Goods and Services Expenditures
- Review of the Quality Management System (QMS) Project
- Knowledge Management Initiative Evaluation Framework
- Preliminary Assessment of Quality Management System for Compliance with ISO 9001:2000 QMS Standard
- Internal Audit of Quality Management System for Compliance with ISO 9001:2000 QMS Standard
- Readiness Review of Quality Management System for Compliance with ISO 9001:2000 QMS Standard

The above reports are available upon request and following management review and response they will be posted on the NEB website for improved access.

3.10 Procurement and Contracting

The procurement and contracting functions are the responsibility of the Finance, Facilities and Procurement Services Team within the Integrated Solutions Business Unit. In 2006-2007, there were some 223 procurement instruments issued for a total contract value of $3.6 million. Of these, 22 contracts/local purchase orders were issued under the auspices of the Procurement strategy on Aboriginal Business program for a total value of $610,610.00.

3.11 Travel Policies

The NEB became a separate employer under the *Public Service Staff Relations Act,* effective 31 December 1992 under Order in Council (OIC) (P.C. 1992-2595). Through the OIC, personnel management, as defined by the *Financial Administration Act*, was delegated to the Chairman of the NEB. For unionized employees, the NEB has agreed to adopt the policies of the National Joint Council, as amended from time to time, as part of the conditions of employment.

Section IV : Other Items of Interest

4.1 Legislation under which the NEB has named responsibility

Acts

National Energy Board Act
Canada Labour Code, Part II
Canada Oil and Gas Operations Act
Canada Petroleum Resources Act
Canadian Environmental Assessment Act
Energy Administration Act
Mackenzie Valley Resource Management Act
Northern Pipeline Act
Species at Risk Act

Regulations and Orders pursuant to the *National Energy Board Act*

National Energy Board Act Part VI (Oil and Gas) Regulations
National Energy Board Cost Recovery Regulations
National Energy Board Electricity Regulations
National Energy Board Export and Import Reporting Regulations
Gas Pipeline Uniform Accounting Regulations
Oil Pipeline Uniform Accounting Regulations
Oil Product Designation Regulations
Onshore Pipeline Regulations, 1999
National Energy Board Order No. M0-62-69 (dated 30 October 1969)
National Energy Board Pipeline Crossing Regulations, Part I
National Energy Board Pipeline Crossing Regulations, Part II
General Order No. 1 Order Respecting Crossing of Utilities by Pipelines
General Order No. 2 Respecting Standard Conditions for Crossings of Pipelines
Power Line Crossing Regulations
National Energy Board Processing Plant Regulations
National Energy Board Rules of Practice and Procedure, 1995
National Energy Board Substituted Service Regulations
Pipeline Arbitration Committee Procedure Rules, 1986
Section 58 Streamlining Order XG/XO-100-2005
Toll Information Regulations

Guidelines and Memoranda of Guidance pursuant to the *National Energy Board Act*

Appropriate Dispute Resolution Guidelines (18 July 2003)
Implications of Supreme Court of Canada Decision on the National Energy Board Consultation with Aboriginal People (3 August 2005)
Consultation with Aboriginal People – Generic Information Request (3 April 2002)

Filers Guidelines to Electronic Submissions (1 December 2004)
Filing Manual (2004)
Filing of Supply Information in Compliance with the Board's *Part VI (Oil and Gas) Regulations* (16 May 1997)
Financial Regulatory Audit Policy of the National Energy Board (23 February 1999)
Guidance Notes for the *Onshore Pipeline Regulations, 1999* (7 September 1999) Amendment I (20 January 2003)
Guidance Notes for Pressure Equipment under National Energy Board Jurisdiction (8 August 2003)
Guidance Notes for the Design, Construction, Operation and Abandonment of Pressure Vessels (3 July 2003)
Guidance Notes for the Design, Construction, Operation and Abandonment of Pressure Vessels and Pressure Piping (3 July 2003)
Guidance Notes for the *Processing Plant Regulations* (28 July 2003) including: Appendix I – Guidance Notes for the Design, Construction, Operation and Abandonment of Pressure Vessels and Pressure Piping (3 July 2003) and Appendix II – Security and Emergency Preparedness and Response Programs (24 April 2002)
Guidelines for Negotiated Settlement of Traffic, Tolls and Tariffs (12 June 2002)
Guidelines Respecting the Environmental Information to be Filed by Applicants for Authorization to Construct and Operate Gas Processing and Straddle Plants, Liquid Natural Gas (LNG) Plants and Terminals, Natural Gas Liquids (NGL), Liquid Propane Gas (LPG) and Butane Plants and Terminals, under Part III of the *National Energy Board Act* (26 June 1986)
Information to be Furnished by Applicants to Import LNG – Letter and Guidance Document (20 September 2005)
Model Conditions for International Power Line Certificates of Public Convenience and Necessity (23 December 2004)
Memorandum of Guidance – Electronic Filing, National Energy Board Rules of Practice and Procedure, 1995 (21 March 2002)
Memorandum of Guidance – Concerning Full Implementation of the September 1988 Canadian Electricity Policy (Revised 23 January 2003)
Memorandum of Guidance – Fair Market Access Procedure for the Licensing of Long-term Exports of Crude Oil and Equivalent (17 December 1997)
Memorandum of Guidance – Regulation of Group 2 Companies (6 December 1995)
Memorandum of Guidance – Retention of Accounting Records by Group 1 Companies Pursuant to Gas/Oil Pipeline Uniform Accounting Regulations (30 November 1994)
National Energy Board Pre-Application Meetings Guidance Notes (26 February 2004)
Notice of Proposed Regulatory Change 2005-01 – Pipeline Security Management Programs (14 September 2005)
Operations and Maintenance Activities on Pipelines Regulated under the *National Energy Board Act*: Requirements and Guidance Notes (7 July 2005)

Regulations pursuant to the *Canada Oil and Gas Operations Act*

Canada Oil and Gas Certificate of Fitness Regulations
Canada Oil and Gas Diving Regulations
Canada Oil and Gas Drilling Regulations
Canada Oil and Gas Geophysical Operations Regulations
Canada Oil and Gas Installations Regulations
Canada Oil and Gas Operations Regulations
Canada Oil and Gas Production and Conservation Regulations
Oil and Gas Spills and Debris Liability Regulations

Guidelines and Guidance Notes pursuant to the *Canada Oil and Gas Operations Act*

Guidance Notes for the *Canada Oil and Gas Drilling Regulations*
Guidelines Respecting Physical Environmental Programs during Petroleum Drilling and Production Activities on Frontier lands
Notice of Revised Offshore Waste Treatment Guidelines (21 August 2002)

Regulations pursuant to the *Canada Petroleum Resources Act*

Environmental Studies Research Fund Regions Regulations
Frontier Lands Petroleum Royalty Regulations
Frontier Lands Registration Regulations
Lancaster Sound Designated Area Regulations
Order Prohibiting the Issuance of Interests at Lapierre House Historic Site in the Yukon Territory
Order Prohibiting the Issuance of Interests at Rampart House in the Yukon Territory

Guidelines and Guidance Notes pursuant to the *Canada Petroleum Resources Act*
Northwest Territories – Nunavut – Guidance Notes for Applicant – Applications for Declaration of Significant Discovery and Commercial Discovery (January 1997)
Applications for Declaration of Significant Discovery and Commercial Discovery – Directly Affected Persons (17 November 2003)

Regulations pursuant to the *Canadian Environmental Assessment Act*

Comprehensive Study List Regulations
Exclusion List Regulations
Federal Authorities Regulations
Inclusion List Regulations
Law List Regulations
Projects outside Canada Environmental Assessment Regulations
Regulations Respecting the Co-ordination by Federal Authorities of Environmental Assessment Procedures and Requirements
Canada Port Authority Environmental Assessment Regulations

Regulations pursuant to the *Canada Labour Code, Part II*

Canada Occupational Health and Safety Regulations
Oil and Gas Occupational Safety and Health Regulations
Safety and Health Committees and Representatives Regulations

Regulations pursuant to the *Mackenzie Valley Resource Management Act*

Exemption List Regulations
Mackenzie Valley Land Use Regulations
Preliminary Screening Requirement Regulations

Regulations pursuant to the *Northern Pipeline Act*

Northern Pipeline Notice of Objection Regulations
Northern Pipeline Socio-Economic and Environmental Terms and Conditions for Northern British Columbia
Northern Pipeline Socio-Economic and Environmental Terms and Conditions for the Province of Alberta
Northern Pipeline Socio-Economic and Environmental Terms and Conditions for the Province of Saskatchewan
Northern Pipeline Socio-Economic and Environmental Terms and Conditions for Southern British Columbia
Northern Pipeline Socio-Economic and Environmental Terms and Conditions for the Swift River Portion of the Pipeline in the Province of British Columbia
Order Designating the Minister of Natural Resources as Minister for Purposes of the Act
Transfer of Duties, in Relation to the Pipeline, of Certain Ministers under Certain Acts to the Member of the Queen's Privy Council for Canada Designated as Minister for Purposes of the Act
Transfer of Duties, in Relation to the Pipeline, of the National Energy Board under Parts I, II and III of the *Gas Pipeline Regulations* to the Designated Minister for Purposes of the Act
Transfer of Powers, Duties and Functions (Kluane National Park Reserve Lands) Order
Transfer of Powers, Duties and Functions (Territorial Lands) Order

4.2 Cooperation with Other Organizations

The NEB cooperates with other agencies to reduce regulatory overlap and provide more efficient regulatory services.

Alberta Energy and Utilities Board (AEUB)

The NEB has memorandums of understanding (MOUs) with the AEUB on Pipeline Incident Response and on Security Assessments of facilities that have both federal and provincial elements. The agreements provide for mutual assistance and a faster and more effective response by both Boards to pipeline incidents in Alberta as well as for resource sharing when undertaking security assessments.

The NEB and the AEUB maintained their commitment to using the common reserves database for oil and gas reserves in Alberta. Both Boards are committed to developing more efficient methods for maintaining estimates of reserves and to exploring other opportunities for cooperation. In 2005, the Boards released the results of their assessment of Alberta's conventional natural gas resources (Energy Market Assessment: *Alberta's Ultimate Potential for Conventional Natural Gas*, March 2005. Available online and at the NEB Library).

Atlantic Memorandum of Understanding on Concurrent Offshore Environmental Assessment

On 18 February 2005, the Government of Canada (represented by various federal departments), the Government of Nova Scotia, the NEB, and the Canada-Nova Scotia Offshore Petroleum Board signed a MOU to create a more coordinated and integrated Environmental Assessment and regulatory process for Nova Scotia offshore petroleum development. The work of the NEB and the other signatories to the agreement was coordinated through the Atlantic Energy Roundtable. The full name of the agreement is *Memorandum of Understanding on Effective, Coordinated and Concurrent Environmental Assessment and Regulatory Processes for Offshore Petroleum Development Projects in the Nova Scotia Offshore Area*.

British Columbia Ministry of Energy, Mines and Petroleum Resources (MEMPR)

The NEB and British Columbia MEMPR maintained their commitment to using a common reserves database for oil and gas reserves in British Columbia. Both Boards are committed to developing more efficient methods for maintaining estimates of reserves and to exploring other opportunities for co-operation. A joint Energy Market Assessment was released in 2006. (*Northeast British Columbia's Ultimate Potential for Conventional Natural Gas*, March 2006. Available on-line and at the NEB Library).

Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) and Canada-Nova Scotia Offshore Petroleum Board (C-NSOPB)

The Chairs of the NEB, the C-NLOPB and the C-NSOPB, together with executives from the Newfoundland and Labrador and Nova Scotia Departments of Energy and federal departments of NRCan and INAC, form the Oil and Gas Administrators Advisory Council (OGAAC). The OGAAC membership discusses and decides on horizontal issues affecting their respective organizations to ensure convergence and collaboration on oil and gas exploration and production issues across Canada. The NEB, C-NLOPB and C-NSOPB staff also work together to review, update and amend regulations and guidelines affecting oil and gas activities on all Frontier lands.

NEB staff also provide technical expertise to NRCan, C-NLOPB and C-NSOPB on technical matters of mutual interest, such as reservoir assessment, occupational safety and health, diving, drilling and production activities.

In 2002, the NEB and C-NSOPB signed a MOU to coordinate the regulatory review of the EnCana Deep Panuke Offshore Gas Development project.

Canadian Association of Members of Public Utility Tribunals (CAMPUT)

CAMPUT is a non-profit organization of federal, provincial and territorial boards and commissions responsible for regulating electric, water, gas and pipeline utilities in Canada. Members sit on the executive committee of the association and promote education and training of members and staff of public utility tribunals. The NEB also provides information to CAMPUT and staff support for conference organization. The Board participates in the CAMPUT annual meetings.

Canadian Environmental Assessment Agency (CEA Agency)

NEB staff are actively engaged with CEA Agency matters, participating in the CEA Agency's Senior Management Committee and acting as an observer on the Regulatory Advisory Committee. This involvement ensures effective coordination of regulatory responsibilities relating to environmental assessments. The Board is also an active participant on the six Regional Environmental Assessment Committees that are Canada-wide. These committees are chaired by the Agency.

Common Ground Alliance (committees across the country)

The NEB is involved in multi-stakeholder committees that promote development and use of one-call services in various provinces and regions across Canada. One-call services are a useful element in implementing the new NEB *Damage Prevention Regulations*, and improve the effectiveness of the Damage Prevention Program.

Cooperation on the Environmental Impact Assessment and Regulatory Review of a Northern Gas Pipeline Project through the Northwest Territories

In 2002, the NEB, in collaboration with the boards and agencies responsible for environmental impact assessment and regulatory review of a major natural gas pipeline through the Northwest Territories, issued a Cooperation Plan. The Plan describes how the agencies propose to coordinate their activities to ensure an efficient, flexible and timely process that reduces duplication and enhances public and northern participation in the review of a major pipeline application. The NEB's partners in the plan include the Mackenzie Valley Land and Water Board, the Sahtu and Gwich'in Land and Water Boards, the Northwest Territories Water Board, the Mackenzie Valley Environmental Impact Review Board, the Environmental Impact Screening Committee and the Environmental Impact Review Board for the Inuvialuit Settlement Region, the Inuvialuit Game Council, the Inuvialuit Land Administration, CEAA, INAC, and observers from the Deh Cho First Nation, the Government of the Northwest Territories, and the Government of Yukon.

Human Resources and Social Development Canada (HRSCD)

The NEB has an MOU with HRSDC to administer Part II of the *Canada Labour Code* for NEB-regulated facilities and activities and to coordinate these safety responsibilities under the COGO Act and the NEB Act. The NEB also participates in the HRSDC client satisfaction survey.

Natural Resources Canada (NRCan) and Indian and Northern Affairs Canada (INAC)

Following the merger of the Canada Oil and Gas Lands Administration (COGLA) and the NEB in 1991, and the subsequent move of the NEB to Calgary, the NEB signed MOUs with NRCan and INAC to provide advice, reduce duplication and increase cooperation between the agencies. The MOUs with NRCan and INAC reflect the transfers of responsibilities for administering aspects of the COGO Act and certain elements of the CPR Act to the NEB. This MOU covers activities such as data collection and archival, availability of Frontier information coming off the privileged period, provision of specialist advice, and basin assessments, provision of production information for royalty determination as well as for dissemination of Call for Bids and Nominations. The MOUs were renewed in February 2006 with INAC and with NRCan in June 2006.

Northern Pipeline Agency (NPA)

The NEB provides technical assistance to the NPA, which, under the *Northern Pipeline Act*, has primary responsibility for overseeing the planning and construction of the Canadian portion of the Alaska Natural Gas Transportation System by Foothills Pipe Lines Ltd.

Pipeline and Hazardous Materials Safety Administration

The NEB has an agreement in place with the Pipeline and Hazardous Materials Safety Administration that provides for information and resource sharing for pipelines that extend from Canada to the US. The agreement also promotes international standardization within North America and both agencies are committed to this goal.

Pipeline Technical Regulatory Authorities of Canada Council (PTRACC)

The Pipeline Technical Regulatory Authorities Committee of Canada has not met formally for some time. The purpose of the committee is to develop common approaches to physical regulation and to allow for the free flow of information and best practices.

Transportation Safety Board of Canada (TSB)

While the NEB has exclusive responsibility for regulating the safety of oil and gas pipelines under federal jurisdiction, it shares the responsibility for investigating pipeline incidents with the TSB. A MOU is in place outlining the roles and responsibilities of the Boards.

U.S. Federal Energy Regulatory Commission (FERC) and Comisión Reguladora de Energía of Mexico

The NEB, FERC and the Comisión Reguladora de Energía of Mexico (CRE) have a tri-lateral agreement to share information on regulatory approaches and current events and seek to provide compatible regulatory approaches while respecting each country's legislative mandates to act in the best interest of their respective nation.

It is the intent of the three regulatory agencies to meet three times a year to promote regular exchanges of information and management approaches to enable best practices in each country's respective regulatory and internal management approaches.

United States National Association of Regulatory Utility Commissioners (NARUC)

Board Members regularly participate in meetings of the U.S. NARUC, particularly with respect to developments in U.S. gas markets that may affect cross-border trade in natural gas.

Yukon Territory Department of Economic Development (YTDED)

The NEB provides support to the Yukon government in its administration of its oil and gas regulatory responsibilities per the Yukon Accord Implementation Agreement. The Board provides expert technical advice under a services agreement to the Yukon Territory Department of Economic Development. The NEB and the Government of Yukon signed the services agreement 6 April 2004.

4.3 Contact Information

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Sandy Lapointe	Business Leader, Applications
John McCarthy	Business Leader, Commodities
Gregory Lever	Business Leader, Operations
Glenn Booth	Business Leader, Planning, Policy and Coordination
Denis Roy	Business Leader, Integrated Solutions
Rob Cohen	General Counsel
Michel Mantha	Secretary of the Board
Dan Philips	Team Leader, Finance